INDIA'S EXPORTS - AN EVALUATION OF POLICIES AND CERTAIN PROMOTIONAL MEASURES

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CHAPTER I

INTRODUCTION

International trade has come a long way since the days of Adam Smith and David Ricardo. The communication revolution which has swept across this planet has turned the world into a "global village" and brought the countries much closer. Today no country can meaningfully live in a state of "auturky" In the international scenario, one does not fail to notice the unmistakable trend towards an increased international economic integration, the symptoms of which are there all around. The share of exports in GDP for the world as a whole has almost doubled from 10.6% to 19.6% over three decades (1950-1980).[1] This enhanced economic integration has also made the individual countries more vulnerable to the events taking place around them. In today's world there is definitely an easier transmission of impulses across the border.

However the debate on the role of trade in the developmental process is still on. Export-led growth or growth-led export, whichever might be the correct strategy for a particular country in a given situation, no one would possibly question that "participation in the world economy enables the domestic economy to augment its production possibility."[2] Foreign trade has a special significance for the developing countries which are striving for rapid industrialisation and a higher share in the world's resources

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through an increase in their per capita income. For them, it is a vehicle for induction of technical know-how and the earner of the much needed foreign-exchange. It is in this light that the strategic role of the external sector in the economies of the developing countries needs to be understood. It is also necessary to pay attention to the chronic problem of foreign-exchange that most developing countries have faced which has crippled their developmental efforts and urged their policy-makers to give a new thought to exports.

I.1 The Indian Scene

Availability of foreign-exchange has been a major constraint facing Indian planners since independence. Foreign-exchange was needed to support the imports required for development of core sector industries, import of technology required for import substitution, import of foodgrains necessary to meet the short-fall between the supply and demand as well as for purchase of sophisticated arms to retain the balance with the political adversaries. In the initial stages of planning the foreign-exchange required for financing developmental and other needs came mainly from foreign aid, loans and private investment. The availability of foreign-exchange from these sources however remained inadequate and uncertain. Of late, prospects of further aid

have become considerably reduced. There has been a tendency on the part of aid-giving countries to reduce the quantum of aid or in any event not to commit aid on a long term basis, which makes perspective planning difficult. In recent years the international flow of private capital also does not show promising prospects. Moreover, the experience of the heavily indebted countries such as Mexico and Brazil has amply shown that borrowing from the private capital market has its own in-built adverse effects on the economic conditions of a country. Again, the present policy of upgradation of technology adopted since the early eighties has necessitated large-scale import of foreign technology which steeply pushed up the foreign exchange requirements over the past few years. In view of the decline in foreign aid India had to go in for foreign borrowings in a big way. It adopted a tactical strategy of financing (i) debt-servicing and amortization and (ii) large-scale technology imports for making the export sector more competitive by resorting to external borrowings. Today the total external debt of the country stands at a staggering U.S. $ 60 billion. Debt-servicing as a proportion of export earnings is likely to go up to 80% within a few years. An analysis of the recent trends of the exports and imports of the country suggests that India may very well get into a serious balance of payments ~~problems~~ in the coming

years. The export sector can play a very crucial role in averting such a disaster by striking a balance between the outflow and inflow of foreign-exchange. In view of the debt-crisis looming large, the country today does not have any other option but to intensify all efforts at export-promotion. The question today is no longer whether to do it but how to do it.

India adopted a planning model which focussed on the capital goods sector and chose import-substituting industrialization as the means to achieve the professed goal of self-reliance. The Indian planners did not therefore initially envisage a major role for the export sector. The huge requirements of foreign-exchange during the Second Plan for setting up the core industries led to the severe foreign-exchange crisis of 1956-57. The country responded to this challenge by initiating physical interventionist policies (such as import licensing, quotas, bans etc.) as well as setting up high tariff barriers to ensure strict import control. This approach intensified during the late fifties and early sixties and has dominated our policies for long.

It was at the beginning of the Third Five Year Plan that there was a recognition for the first time of the role

of the export sector. The planners realised that a progressive increase in the country's foreign-exchange needs would require a re-orientation of the policies for stimulating exports and certain broad measures were suggested in the Third Plan document to achieve this objective. These included holding down domestic consumption for generation of export surpluses, enhancing the competitiveness of export industries and increasing their profitability, ~~and~~ promotional measures to cultivate foreign-markets etc. This growing awareness of the true potential of the export sector was responsible for introduction of a number of promotional measures, on a very moderate scale to begin with, which were in the nature of relief from various taxes, certain direct fiscal and non-fiscal incentives as also a strengthening of the institutional framework to inculcate quality consciousness, facilitate penetration of overseas markets, provide insurance coverage and improve export credit facilities and on the whole extending full assistance to the individual exporters. Creation of Export Promotion Councils, Commodity Boards, Export Credit Guarantee Corporation, the Trade Development Authority and a number of other institutions were all steps in this direction.

The devaluation of the rupee in 1966 was expected to give a boost to the country's exports but it did not greatly

succeed in achieving this objective. Devaluation was accompanied by a drastic reduction of some of the export incentives, which were, however, soon restored.

The post devaluation years were characterized by the continuation of the dual policies of import-substitution and export promotion with a heavy tilt forward protectionism control and restrictions, which reigned till the mid-seventies.

A liberalisation of the import policy came in the 1975-76 period with the introduction of the scheme of Open General Licence and was carried further in the years to come. The seventies also saw introduction of certain further promotional measures for the export sector, a simplification of the export procedure as also a further strengthening of the institutional support. The period between 1975 and 1985 has been marked by the setting up of a number of committees and task forces to review the trade policy of the country. A number of these committees made certain far-reaching suggestions for policy changes which were subsequently accepted by the government while formulating the policies. Import licensing system is now considerably streamlined by removal of unwarranted constraints on the trade activity. A large number of expor

promotion schemes have been introduced some of which of late have been considerably liberalised. These schemes along with the provision of export services through export service organizations have considerably improved the export orientation in the economy. In quantitative terms there has no doubt been a phenomenal growth of the export sector over the past two decades. The value of exports went up from Rs.1198.70 crores in 1967-68 to Rs.11743.68 in 1984-85. But during this period India's share in the world exports showed a steady decline from 0.8% in 1967-68 to 0.5% in 1983-84. This suggests that in a fiercely competitive world market, while other countries are forging ahead, India is lagging behind. One has also to consider the high price the nation is paying for subsidising its exports and the social costs involved. Despite large-scale concessions to the export sector, both in terms of incentives and policy liberalisation, quantitative growth in exports in real terms has been much below expectations. Again one may justifiably ask whether the desired qualitative changes in the basket of export products from primary and semi-processed to manufactured and even high-tech items as envisaged by the policy framers has come about or not. The authorities as well as the trade had great expectations from the Export Processing Zones set up

in various parts of the country. Such Zones in many other parts of the world have been very successful in boosting the exports of those countries. To what extent these zones have contributed to export promotion in India is another point that needs consideration. Very limited studies have been done so far on these aspects and these too were carried out in a piecemeal fashion. An attempt will be made in the present study to assess in quantitative terms the extent of the various concessions given (on the basis of data available) under some of the current export promotion schemes and the policy liberalisations made for the export sector and then evaluate their impact.

I.2 Overview of Literature

In view of the growing consciousness of the importance of the export sector some work has already been done in this field. Dr. Manmohan Singh the author of "India's Export Trends" has made a comprehensive study of the causal factors at work for the sluggishness of India's export earnings in the fifties and an analysis of India's export prospects in 1970-71. The other remarkable study in this field is entitled "Trade Policies of India" by Dr. V R Panchamukhi. It is one of the very few quantitative

studies providing a comprehensive approach to trade policy. In "Foreign Trade Regimes & Economic Development : India", the authors Jagdish N. Bhagwati and T.N. Srinivasan have analysed the impact of India's foreign-trade regimes since the post war period on her economic performance and have studied in depth the devaluation of 1966. Chapter VII of the work done by Jagdish N. Bhagwati and Padma Desai entitled "India: Planning for Industrialization" also brilliantly analyses trade policies of the country and, amongst other things, evaluates the export performance of country since 1951, pointing out the inadequacies and deficiencies. The other outstanding work has been by Shri Deepak Nayyar in his book entitled "India's Export and Export Policies" and an article on "India's Export Performance 1970-85 Underlying Factors and Constraints" published in the Economic and Political Weekly Annual Issue 1987. While assessing India's export performance in the recent past, Shri Nayyar outlines the trends in exports and explores the factors underlying the export performance.

The Corporate Studies group of the I.I.P.A. prepared a working paper on India's Export Policies and Performance. Part I of the Paper traces the evolution of the export policies and important measures adopted for export promotion

in India while in Part II an assessment of the export performance of the top 405 public limited companies in the private sector during the period 1975-76 to 1983-84 have been made. The findings and conclusions of the study team invites our attention to the structural weaknesses and loop-holes in our export promotion policies and how these are being utilized by the Corporate sector to their advantage. None of the works as mentioned above however evaluates the various export promotion measures to ascertain the overall benefits in the form of net exports vis-a-vis the cost.

I.3 Conceptual Framework

As already pointed out the Central Government introduced a large number of concessions both in terms of incentives and policy liberalizations over the past few decades to improve the export orientation of the economy. The expectation of the policy framers was that these measures would lead to a remarkable growth of the export sector and also bring about qualitative changes in the composition of the exports. These include setting up of Export Promotion Zones, introducing the Scheme of 100% Export Oriented Units, expanding the Duty Drawback Scheme,

exemption from Income-Tax/Customs and Central Excise Duties on export earnings/inputs going into the manufacture of export items, subsidies in the form of Cash Compensatory Support, the Advance Licensing Scheme, grant of Import Replenishment Licences to the exporters on the basis of their actual exports, exemption from various regulatory provisions like Import licensing, Foreign Exchange regulation, M.R.T.P. Act etc., setting up of financial institutions to ensure easier credit for the export sector, a scheme of Export and Trading Houses which are eligible for certain concessions, the Export Credit and Guarantee Corporation to provide insurance coverage against risk of non-receipt of payment due to commercial and political risks, expanding the institutional framework by establishing certain agencies like Export Promotion Councils, Trade Development Authority, Trade Fair Authority of India, Indian Institute of Foreign Trade, Export Inspection Council, Indian Institute of Packaging, Commodity Boards for certain items, to directly or indirectly promote the cause of exports. Some of the above schemes form the background of the present study

I.4 Objectives/Research Questions

A number of incentives-fiscal as well as non-fiscal were first introduced two to three decades back with the

avowed objective of export promotion. These have since been considerably liberalized and diversified and today a wide range of concessions (as already pointed out) exist and are being widely availed of by the exporters. These incentives have no doubt played a very crucial role in giving a boost to the country's exports, but few comprehensive studies have so far been made to assess the overall extent of these concessions and evaluate them. Since the country is required to pay a heavy price to sustain such concessions and facilities for the export sector, a comprehensive study is very essential to give us at least an approximate idea of the benefits derived from them vis-a-vis their cost. Some of the research questions that emerge in this context are

(a) What is the total quantum of C.C.S./Duty Drawback actually paid to the exporters?

(b) What are the industries deriving the maximum benefit from these Schemes and what is their export performance?

(c) What is the value of exports from the EPZ vis-a-vis the value of imports into these zones?

(d) What is the contribution of the 100% E.O.Us. to the country's export promotion?

(e) What is the impact of the Advance Licensing Scheme on India's foreign trade?

The study will make an attempt to answer these questions and will analyse the available data collected for the purpose.

I.5 Methodology

In order to make an evaluation of the various export promotion measures introduced over the years and see how far they have been able to achieve the desired results it was decided to study some of the current export promotion schemes in details and quantify the different concessions given to the export sector wherever possible. Since the study will be at the macro-level, only aggregate statistics will be made use of. No primary data will be collected. Data will be collected only from secondary sources - published as well as unpublished. Published data will be from various issues of the Economic Survey, Report on Currency & Finance, the Annual Reports of the Ministry of Commerce, the Report of the P.C. Alexander Committee on Import Export ~~Promotion Councils~~ Policies & Procedures and the Report of the Abid Hussain Committee on ~~Import-Export~~ Trade Policies. The unpublished sources of data will be the relevant official documents and files of the Ministry of Commerce, Ministry of Finance and their attached and subordinate offices.

The data collected will be analysed by simple statistical methods and then interpreted keeping in view the objectives of the study.

The study comprises five chapters. Chapter II traces the evolution of export policies in India and while doing so, briefly mentions the various promotional measures introduced by the government from time to time to facilitate exports. Chapter III gives a brief account of India's export performance, and seeks to identify the trends which are emerging. Chapter IV presents a detailed account of certain export promotion measures and makes an attempt to evaluate them. The study concludes with Chapter V which gives a summary of the conclusions and suggestions in the light of the discussions in the first four Chapters.

CHAPTER II

REVIEW OF INDIA'S EXPORT POLICIES

II.1 The First and Second Plan period

India's export policies have their roots in the overall economic policies adopted for industrial development of the country and are best understood in the context of the latter. The initial strategy for planned development based largely on the Mahalanobis model focussed attention on the capital goods sector with the objective of strengthening the productive base of the economy which in turn was expected to bring about an increase in output and consumption in the long run. Within the capital goods sector, a higher priority was assigned to the machine-making industries so as to stimulate further industrialization and make the economy increasingly self-reliant and independent of imports. The Indian planners who adopted a policy of import substituting industrialization did not initially envisage a major role for the export sector. This attitude may perhaps be explained a least in part by the influence of the economic thesis of Prebisch and Nurkse. Pessimism regarding any substantial expansion of the export sector prevailed. This led many of the planners to believe that not much could be done to increase export earnings in view of the stagnant demand in the international market for India's major exports. This was also reflected in the Second Five Year Plan document which stated that "on the whole, the

fact remains that the increase in exports that we visualize over the plan period is not very striking. India's exports earnings are derived from a few commodities. Three of them, namely, tea, jute and cotton textiles account for nearly one half of the total. These major exports are meeting increasing competition from abroad. This limits the scope for any substantial increase in exports in the short-run. While every effort has to be met to promote exports of new items and to develop and diversify the markets for the country's major exports, it has to be recognized that it is only after industrialization has proceeded some way that increased production at home will be reflected in larger export earnings."[1]

Although self reliance was the avowed goal and import substituting industrialization the means to achieve this, the development of the core-sector industries itself necessitated massive foreign-exchange resources. Table II.1 shows India's total imports and exports and the proportion of exports to imports during the First and Second Five Year Plans:

TABLE II.1: EXPORTS AND IMPORTS IN THE FIRST AND SECOND FIVE YEAR PLANS (IN MILLION RUPEES)

	First Plan (1951-1955)	Second Plan (1956-1960)
Exports	6039	6027
Imports	7240	10720
Export-Import Ratio	83.4%	56.2%

Source: For exports D.G.C.I.S. & Import's Third Five Year Plan.

In view of the continuing stagnation in India's exports we had to resort to large-scale withdrawals from our foreign-exchange resources (which had accummulated during the Second World War) and massive external assistance to bridge the widening gap between imports and the exports. During the Second Five Year Plan alone the total withdrawls from the foreign-exchange reserves amounted to Rs.5980 million besides net drawings from the IMF to the tune of Rs.550 million.[2] The liberal foreign aid policy of the donor countries also ensured receipt of massive external assistance which amounted to Rs.16,944 million over the 10 year period ending 31st March, 1961. However even the withdrawals and the generous aid were unable to meet the rising imports needed for a rapid growth of the basic industries. The foreign-exchange crisis of 1957 was the inevitable result, which speeded up the introduction of highly inward-oriented policies involving a large number of controls, high tariffs and quotas, with the twin objective of providing a high degree of protection to the nascent industries and directing the limited availability of foreign exchange resources to the priority sectors. These policies continued well through the sixties and had the desired effect of gradually bringing down imports and rendering India an extremely closed economy by the beginning of the seventies.

Excessive reliance on the policy of import substitution in the initial stages of planning which the planners had

expected would by itself be able to solve India's balance of payments difficulties did not allow a recognition of the true potential of the export sector and any real intensification of export effort. The export sector therefore remained neglected. "It is hazardous to offer a quantitative estimate of export earnings lost through neglect or inaction but analysis of India's major exports...suggests that had India's relative share of world exports of these commodities in 1958-60 been the same as during 1948-50, her export earnings would have been 15 to 20 percent higher than they actually were; i.e. she would have earned an additional foreign-exchange worth Rs.900-1200 million a year during the late fifties."[3]

II.2 Export Policy in the Sixties

There was a recognition for the first time of the role of the export sector in the Third Five Year Plan which stated that "one of the main drawbacks in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort under the Five Year Plans...The effort and the planning (for the export sector) will in fact have to be distinctly larger in magnitude. An important reason for stressing new and far-reaching measure and policies for increasing exports during the Third Plan is that this is the period in which exports must be built up in order to meet the much larger requirements anticipated for the Fourth Plan....on account of repayment obligations abroad and maintenance and development imports." In order to achieve

this objective it was recommended that efforts should be made for (i) creating export surpluses by holding down domestic consumption, (ii) increasing the comparative profitability of the exports, (iii) enhancing the competitiveness of the export industries so as to ensure a higher degree of diversification and an increasing share of new manufactures and minerals, (iv) improving the infrastructural facilities for marketing and market research and securing cooperation of the industry and trade in this effort.[4]

Immediately preceding the formulation of the Third Five Year Plan, a committee under the Chairmanship of V.L. D'Souza was set up in the wake of the foreign-exchange crisis of the mid fifties to look into the various aspects of trade promotion. It observed that the only recourse left for the country was to launch an all out export drive, and in order to achieve this it made a number of important recommendations which formed the basis of the export strategy of India in the sixties. These included:

(i) simplification and extension of the Duty Drawback system

(ii) relief from income-taxes

(iii) production and processing of goods in bond for export purposes

(iv) exports to be incorporated in licensing targets

(v) upgradation of technology and production methods

(vi) diversification of exports and export markets

(vii) setting up of new export promotion councils for commodities which were not covered already

(viii) development and extension of services like shipping, banking, internal transport and insurance

(ix) holding industrial and commercial exhibitions and fairs[5]

Issues relating to export promotion were examined by another committee under the Chairmanship of A. Ramaswami Mudaliar which had a number of its members from the Private Sector. The Committee, amongst other recommendations, urged upon the government to "compensate the trade for its export effort through selective concessions, fiscal reliefs and other incentives to make the export business worth-while over the long haul."[6]

That export consciousness was growing in India was evident in the gradual shift in export policies in the sixties. In terms of the recommendations of the Industrial Development Procedures Committee 1964 (Chairman: T. Swaminathan), the export industries were given equal status to that of "key industries" which implied that they became eligible for preferential treatment in the grant of industrial licences.[7] The most important aspect of the policy of export promotion during the sixties was export subsidization which took essentially two forms: (i) fiscal measures and (ii) import entitlement/ import replenishment schemes.[8] In addition, a part of the Marketing Development Fund which was established was providing grants to the Export Promotion Councils for the

exploration and development of foreign-markets for export commodities and certain other incentives like supply of indigenous material at international prices, facilities to invest abroad, grants to promote participation in exhibitions abroad, credit concessions, preferential allocation of AU and CG licences to exporting firms etc. were introduced to facilitate exports.

The major fiscal measures for export promotion were (i) exemption from sales tax of final sales and refund of customs and central excise duties on imports (ii) direct tax concessions (iii) outright subsidies and (iv) rail freight concessions. These concessions in their present forms will be discussed in further details in Chapter IV. Exemption from and refunds of indirect taxes in case of export products as well as the indigenous and imported inputs going into their production was an important component of the fiscal measures, though the overall benefits were marginally reduced on account of procedural inefficiencies resulting in delays. Drawback of import duties for raw materials used in exported finished products had been introduced earlier in 1954. The items initially covered under the scheme included art silk fabrics, dry radio batteries, electric fans and cigarettes. This was supplemented in 1956 by a scheme of rebates of central excise duties on readymade apparel, sugar products and cotton and silk fabrics produced in powerlooms. By 1960, the

procedures and rates for granting drawbacks on import duties had been worked out for eighty nine commodities and for refunds of excise duty on twenty seven items; however the remainder which constituted the overwhelming bulk of actual and potential exports, still had to go through detailed procedures. The coverage of these schemes was considerably enlarged in the sixties.

In case of sales tax, the actual benefits to the exporter was generally much less than what it was intended to be. To quote the Mudaliar Committee..." it is not easy to get the remission of sales tax in many cases, as the expression 'in the cause of export' in the Central Sales Tax Act is rather ambiguous, Besides sales tax falls at more than one point. There is also an interstate sales tax; and these inflate the export costs in varying degrees. But the difficulty is that sales tax is a state subject, and its rate varies from State to State. So the question arises: at what point to give the rebate and at what rate? Also, as sales tax is one of the most important sources of revenue to the State Governments, they have been extremely averse to parting with any ingredient of it."

The direct tax concessions first introduced in 1962 as a non-discriminatory tax concession to exporters to be calculated on profits from exports was made selective and

related not to profits but directly to the f.o.b. value of exports in 1963 and finally took the shape of tax credits at different rates to different industries (the maximum being 15%) in 1965. The scheme was however withdrawn subsequently in 1966 in the wake of devaluation.

The outright export subsidy was initially in the form of a cash subsidy on sugar. This subsidy cost the exchequer Rs.142 million in 1962-63 and Rs.35 million in 1963-64 (against an export of Rs.169.2 million and Rs.260.3 million respectively). In 1966, there was a large-scale introduction of cash subsidies covering a wide range of items - engineering goods, chemicals, processed foods, paper products, sports goods, woollen carpets, steel scrap, prime iron and steel, cotton-textiles etc. The cash subsidies ranged from 10% to 25% ad valorem and were selective.

There also existed a disguised cash subsidy in the shape of losses incurred by the S.T.C. on exports of certain commodities which were "financed" by profits on other (essentially import) trade. During the post devaluation period, S.T.C. absorbed losses on exports of rice, sugar, copra extractions, jute goods, art silk fabrics, coffee, fruits and vegetables, cement and certain other commodities.[9]

The rail-freight concessions introduced during this decade were intended to offset the transport cost "disadvantage" to the exporter and were largely applicable to the manufactured items. It has been rightly pointed out by Bhagwati and Desai,[10]

that "the notion that transport costs may reflect real costs to the economy and the fact that, if anything, the shadow freight rates were almost certainly higher than those charged on a non-concessional basis seem to have concerned none of the authorities in charge of the export drive."

The Import Entitlement Scheme which remained in force upto June 1966 and the Import Replenishment Scheme which replaced the former in August 1966 however emerged as major instruments of export promotion in the sixties.[11] Under the Entitlement Scheme, eligible exporters received import licences - which were generally transferable and yielded high premia (though the level of premium varied from commodity to commodity) - in proportion to the f.o.b. value of actual exports made by them. The guiding principle for issue of such licences was that the import entitlement would equal twice the value of import content, subject to a maximum limit of 75% of the f.o.b. value of export. However, the above principles were not strictly adhered to in all cases. The scheme did not envisage free imports but restricted the imports to those items only which were to be directly used in the manufacture of the export items. By early 1965, the import entitlement scheme already had a very considerable coverage. But in June 1966 it was abolished with devaluation of the Rupee and was replaced by the Import Replenishment Scheme. Under the Replenishment

Scheme, exporters were granted import licences of a value in proportion to the f.o.b. value of their exports. The two schemes were essentially identical except for a few differences. The primary difference was that replenishment licences merely replaced the import content of the export whereas the entitlement licences had equalled twice such import content value. The Replenishment Scheme thus sought to remove the element of "open" subsidy associated with the Entitlement Scheme.

The other aspect of the export strategies for the sixties was a strengthening of the institutional framework for export promotion.[12] Firstly, a number of Export Promotion Councils assigned with the task of promoting the exports of specific commodities were established in addition to those which were already in existence. The main functions of the Export Promotion Councils include market surveys, offering technical advice and rendering all possible assistance to its members, promoting participation in overseas trade fairs and exhibitions and launching of joint foreign publicity schemes, apprising the goverment of the Exporters' problems, supply of indigenous and imported raw-materials, securing assistance from the Market Development Fund and shipping freight concessions to the exporters, collection and dissemination of market intelligence, sending of trade delegations abroad etc.

Setting up of Commodity Boards which had started in the fifties was yet another effort at infrastructural development for assisting exports. The Tea Board and the Rubber Board had been set up in 1954. Tea Board undertakes various programmes aimed at promoting export of Indian tea and in particular assisting in the marketing of its various brands. The Rubber Board promotes the development of the rubber industry in India, especially the production of natural rubber. To these were added the Cardamom Board in 1965. The Coffee Board had already been existing since 1948 (when it replace an earlier Board). The Commodity Boards have been entrusted with the task of dealing with the problems of production, export promotion, marketing, research and development of the respective commodity. Some of these Boards have got overseas offices to actively promote/popularise the consumption of the particular commodity in the region. During the seventies, the Tobacco Board (1976) and the Marine Products Export Development Authority (1972) were set up, while the Spices Board was formed in 1986 by merging the Cardamom Board and the Spices Export Promotion Council.

Three other institutions set up during the sixties have played crucial roles though indirectly in India's export promotion drive. These are the Export Inspection Council, the Indian Institute of Packaging and the Export Credit and Guarantee Corporation. The Export Inspection Council is an

apex body for exercising direct supervision and control over the activities of the quality control and pre-shipment inspection. It has a number of Export Inspection Agencies under its technical and administrative control, and it is these agencies which assure the quality of the products intended for export (under the compulsory quality control and preshipment inspection scheme) by carrying out inspection and testing wherever necessary. The Council also advises the Central Government on measures for enforcement of quality control and inspection with regard to export commodities and draws up programmes for the purpose.

The Indian Institute of Packaging, established in 1966 has the objective of improving the standards of packaging to facilitate exports. The Institute has undertaken various projects for research and development, technical consultancy, education, training and testing facilities to be developed in the country. Its activities are designed to assist various interests including the producers of basic packaging materials, the manufacturers of ancillaries, the converters of packaging materials into packages and more particularly the users of packaging for a very large number of goods. Membership of the Institute therefore comprises all these interests.[13]

The Export Credit and Guarantee Corporation was set up to provide insurance coverage to exporters against risk of non-receipt of payments due to commercial and political risks.

ECGC has also evolved financial guarantees which give protection to the banks against the risks involved in giving advances to the exporters. The E.C.G.C. therefore fulfilled the long-standing need of protecting the Indian exporters from the various risks associated with inter-national transactions, as well as promoting greater flow of finance from banks to the export sector.

To meet the growing needs of the trade and industry for trained export-management personnel and to provide market information in relation to products as well as countries of export-interest to India, the Indian Institute of Foreign Trade was established in 1963. The Institute has contributed to the development of trained manpower for the export sector and undertaken market-surveys and research in the area of foreign-trade.

Another export promotion measure that was adopted for the first time in the country was the setting up of a Free Trade Zone at Kandla. Such Zones in many other parts of the world had been very successful in boosting the exports of the countries in which they were located. Realising the strong domestic pull for many of the goods which are in demand in foreign-markets, the government decided in the sixties to use this medium of export promotion by insulating the specified products or areas from the suck-in-effect of the

vast domestic market. Duty free import of machinery and equipment and raw-materials, income-tax holiday in the initial years of production, waiver of licensing for import of inputs, exemption from Customs and Central Excise duties, complete reinbursement of Central Sales Tax, permission to sell certain percentage of production and of rejects in the domestic market and liberalized availability of foreign-exchange for export promotion activities are some of the incentives presently available to manufacturing and exporting units in Free Trade Zones from the Central Government. Besides, the respective State Governments also extend certain facilities to the units located in these processing zones. These include single point disposal for all State Government clearances, 50% subsidy on feasibility studies, 15% capital subsidy, Public Utility Service Status under the Industrial Disputes Act and exemption from local Purchase Tax levied on purchase of inputs from within the State.[14]

A very important economic event of the sixties which had a considerable impact on the foreign trade of the country was the devaluation of the rupee in June 1966.[15] The rupee had in fact been over valued for quite some time and one of the factors that led to the devaluation was an adjustment of the parity in a situation of over-valuation. But the more important reason was that the Aid-India Consortium had virtually

made a major devaluation a precondition for the resumption of aid, leaving the government with very little choice because of the acute shortage of foreign-exchange. The devaluation was expected to give a boost to the country's exports as Indian goods were going to be cheaper to foreign-buyers. The devaluation was however accompanied by a drastic reduction of the export incentives by

(1) elimination of the import entitlement schemes, the tax-credits and a few cash subsidies introduced on selected engineering goods shortly before.

(2) imposition of a number of export duties on traditional exports mostly agricultural commodities and agro-based manufactures aimed at partially or wholly neutralizing the effect of devaluation thereon on the assumption that India had monopoly power in trade in these items.[16]

Cash subsidies on a selective basis were however soon restored and a scheme of import replenishment, in place of import entitlement existing before the devaluation introduced. These schemes have already been discussed earlier in this chapter. The devaluation was also accompanied by announcement of a liberal import policy for 59 priority industries, including a number of export-oriented industries. A scheme for the supply of steel at international prices to exporters of engineering goods was also announced, while import of certain raw-materials was placed under the O.G.L.[17]. All these steps sought to utilize the fiscal measures to achieve the desired result of export promotion but did not greatly

succeed on account of various factors. Firstly the intended effect of devaluation was largely offset by introduction of export duties on certain traditional commodities. In case of "new" exports where the export subsidies were removed, the effects of devaluation was also largely neutralized. These along with a number of other factors were responsible for the negligible impact of devaluation on the export of traditional primary ~~projects~~ products and only a marginal improvement in the non-primary new exports.

Subsequent to the devaluation of the rupee, fourther modifications, adjustments and extensions in export promotion policies were made. These took the form mainly of adjustments in export duties and in cash assistance, modifications of import facilities for exporting units and industries and strengthening of credit arrangements for exports. Reductions rationalisations or abolition of export duties were made from time to time in the light of international demand conditions and the competitive position of Indian export products in world markets. The rates of cash assistance were increased for a number of products and several new products were brought within the scope of the cash assistance scheme.[18]

II. 3. Export Policy in the Seventies

~~II.3~~ The beginning of the seventies was marked by the adoption of an Export Policy Resolution - a comprehensive policy statement on export - by the Indian Parliament in 1970. Many of

the export policies pursued during the seventies and eighties had their roots in this policy statement. I.B.R.D. described the Resolution as "an admirable document" as it stated "in no uncertain terms the resolve of the Authorities to promote exports and to amend if necessary, some rules of the existing economic policy in order to achieve that goal."[19] The Policy provided the framework within which the export policies and programmes were to be formulated for the realisation of national objectives and, for facilitating rapid growth of exports. It stated that "in pursuing the aim of creation of new export capacities every effort will be made to assist export oriented units in the private and public sectors to achieve economies of scale, improve efficiency of production, reduce costs and adopt production to meet the requirements of their customers abroad. To this end, the procedures relating to foreign investment, licensing of creation or expansion of industrial capacity, licensing of import of capital goods and raw-materials or other inputs, will be suitably adapted. Every effort will also be made to secure that indigenous industrial raw-materials required for export production are made available in right quality and quantity, and at fair prices."[20]

The Resolution examined the export potential of different sectors of the economy including the scope for export of

turn-key projects, emphasized the need for quality control, market research, development of trained export personnel, for provision of better services by the export service agencies, strengthening of the export credit institutions, expansion and development of the shipping facilities, a greater degree of stability in export policies and visualized a more important role for the small and medium scale sectors and the public sector undertakings. It also reiterated the need for import substitution as also the imposition of temporary restrictions on domestic consumption in order to generat~~e~~ion of export surpluses for retention of export markets.

IX.3 Export Policy in the Seventies

The seventies saw a further strengthening of the institutional support for exports, liberalisation of imports, simplification of export procedures and documents and introduction of a scheme of recognized Export Houses eligible for certain facilities aim~~ing~~ed at improving their performance. Steps were also initiated by the government to seek better terms of trade in the industrialized markets. India actively participated in international forums like the UNCTAD, GATT, Commonwealth and Group of 77. Bilateral Agreements with the countries constituting major markets for Indian products and Commodity Agreements were used as important instruments of trade promotion during the Fourth Plan.[21] The Generalised

System of Preferences (GSP) introduced in the early seventies at the instance of UNCTAD with the avowed objective of promoting industrialization and export earnings of developing countries and accelerating their rates of economic growth largely through a process of tariff concessions by the developed countries also brought within its fold a large number of developing countries, including India, although it has been shown by Dr. V.R. Panchamukhi that the G.S.P. had very little impact on India's export promotion.[22]

The Fifth Five-Year Plan (1974-79) formulated in the early seventies stated that the "objective of export promotion should be to further strengthen the leading sectors of growth. Exports which are capable of competing without subsidy will have to be given preference and capacity for their production increase."[23] The plan envisaged an important role for the manufacturing sector such as steel, industrial machinery, metal based products, readymade garments, leather manufactures, marine products, electronics and transport equipment in the country's exports. It further stated that in exports of natural resources such as iron-one, mica and bauxite, the emphasis would have to be on product mix with higher value added component, implying expansion of capacity.

In 1974, a committee on Engineering Exports was set up under the Chairmanship of M. Sonani. It recommended the

relaxation in case of exporting companies, of certain regulatory provisions applicable to Indian industries in general. The Committee suggested an automatic growth of licenced capacity by 5 per cent per annum or upto 25% in a plan period in sixteen specified industries, exclusion of exports from the companies' production for ascertaining market dominance for the purpose of operation of the M.R.T.P., removal of restrictions on foreign shares in case of 100% Export-Oriented. Units as also exploring the propsects for technology and machinery exports to some of the developing countries.

Amongst the recommendations of the various committees formed during the seventies for review of India's trade policies, most significant were those of the P.C. Alaxander Committee on Import-Export Policies and Procedures. The Committee was appointed in November 1977 to review the existing import and export policies of the country, suggest improvements therein and to recommend appropriate measures for rationalization and simplification of procedures. The Committee recommended a wide range of innovative measures to rationalise the trade policy regime and a majority of these were subsequently implemented by the government. The Committee suggested a simplification of the import policy through a classification of imported goods into three categories viz. banned, restricted and O.G.L. and it was suggested that the

first two categories could be listed in the Policy book and the last one could be left as an open ended list without being fully mentioned in the Policy books. It further suggested that in course of time the licensing system could be replaced by a tariff structure which is considered desirable for the economy. The Committee also made a number of important recommendations on export policy as stated below:

(i) the export strategy should be integrated with development strategy and policies relating to investment, taxation, transport, communications etc.

(ii) replenishment licences (REP licences) should be issued only for import of banned and canalised items and packing materials, which are linked to the export products and the value of such licences should be in proportion to the quantity of materials used in products actually exported.

(iii) the REP licences should be transferable with the transferee being eligible for import of the same items.

(iv) a list of items subject to export control should be identified on the basis of long term export plan and should be made known well in advance along with the period of such export restrictions.

(v) The Committee also recognized the promotional role of cash assistance in the country's export efforts on the basis of the finding that the exports subject to cash assistance tended to grow faster than other exports, and recommended that cash assistance should be based on three principles:

(a) compensation for those indirect taxes in the production cost which are not refunded through the duty drawback system (b) compensation for freight and other cost differentials and (c) for providing initial promotional expenditure for new products

and in developing new markets. The Committee was of the view that cash assistance should be made available only for a limited period during which the relevant disadvantages could be eliminated by conscious efforts. It also suggested that all products for which the aggregate of duty drawback rate and cash assistance is currently 25 per cent or less should carry a combined rate.

(vi) The Committee, keeping in view the importance of the role of the Export Houses in providing a wide range of export services to the exporting community, suggested that (a) the Export Houses should be given additional import licences of the value of 1/3 of the f.o.b. value of exports of the select products manufactured by small-scale and cottage industries and 5 per cent of the f.o.b. value of exports of select products manufactured by other units, subject to a ceiling of Rs.2 lakh for import of a single item; (b) R.E.P. entitlement of Export Houses should be able to deal with all types of machinery and equipment permissible for import under O.G.L. for stock and sale as also those items which are allowed under general policy for stock and sale; (d) the maximum limit for release of foreign exchange to export houses for export promotional purposes should be raised from Rs.1 lakh to Rs.5 lakh.

(vii) The Committee also reviewed the role of the Export Promotion Councils and suggested that they should become more effective in providing the required services.

(viii) The Committee, keeping in view the need for an effective information system for import and export activities recommended that a computerised National

Trade Information Centre should be established early.

(ix) Finally, on a review of the role of India's Commercial Representatives abroad, the Committee expressed dissatisfaction and suggested that a separate cadre of Commercial Representatives should be established, and its members should undergo thorough training on marketing procedures, techniques of conducting market surveys etc. It also recommended that the Commercial Representatives should be granted greater autonomy and more efficient facilities and manpower for their more effective functioning.[24]

Apart from making such specific recommendations the Committee also noted that "excessive protectionism without any scope for a competitive environment either in regard to domestic production or trade could be self defeating and could lead to inefficient use of national resources. Having recognized that the Indian Industry has reached the stage where it could withstand competition from other countries and also recognizing that efficiency should be given greater weightage in the decision-making process both in the government and in the private sector, the committee recommended that the competitive environment should be increased and the list of items to be put on O.G.L. should be expanded."[25]

During the seventies, the infra-structural framework for exports was further strengthened. In 1970, the Trade Development Authority of India was set up with four-fold objectives

"(a) to identify and nurture specific export products with long range growth prospects;

(b) to identify and cultivate specific buyers in selected overseas markets which have increasing trade potential;

(c) to bring about durable merchandising contracts between the selected Indian suppliers and the overseas buyers;

(d) to provide package of service to execute such contracts etc."[26]

The organization has a micro-level approach, and directs its activities to specific exporters, specific products and specific markets. The approach evolved by T.D.A. has three basic components viz. merchandising, research and analysis and information, each being dealt with by a functional division. It arranges for buyer-seller meets, organizes contact promotion and market development programmes, arranges for participation of Indian exporters in International Trade Fairs and has a number of programmes for product development, export development etc.

The Trade Fair Authority of India, was established in March 1977 by amalgamating three organizations viz.

Directorate of Exhibitions and Commercial Publicity, Indian Council of Trade Fairs and Exhibitions and the Trade Fair Organisation. The objective of T.F.A.I. has been to promote, organize and participate in industrial, trade and other fairs and exhibitions, set up show-rooms and depots in India and abroad, undertake trading activities in commodities connected with or relating to such fairs and exhibitions and to develop exports of new items for diversification and expansion of India's export trade. Since its inception the authority has been organizing wholly Indian exhibitions and arranging for India's participation in several international fairs on a world-wide basis.[27]

In the mid-seventies, yet another Export Processing Zone appeared on India's map. The Santacruz Electronics Export Processing Zone was set up in September 1974 exclusively for augmenting the exports of electronics goods from the country. EPZs have been discussed in further details subsequently in Chapter IV.

A significant scheme for promotion of exports was introduced in 1976 with the objective of providing financial relief to the exporter-manufacturers who depend on import of inputs for manufacture of their export items. It was called the Duty Exemption Entitlement Scheme or the Advance Licensing Scheme. Under this scheme the exporter is permitted to import

specified quantity and value of inputs without payment of any customs duty provided these are meant for production of goods to be exported. The duty-exemption is allowed only in respect of specified commodities which are allowed to be imported against Advance Licences decided by the Advance Licensing Committee of the Ministry of Commerce. The Exporter who has been issued an Advance Licence obtains a Duty Exemption Entitlement Certificate from the Drawback Directorate of the Ministry of Finance on the basis of which duty-exemption is allowed by the customs authorities. The scheme has picked up gradually and became popular specially after certain modifications were effected after 1979. It is now being availed of by a large segment of the exporting community, both the manufacturer exporters and merchant exporters.[28]

II.4 Export Policy in the Eighties

The eighties ushered in a new phase in the industrial and trade policies of India. The moderate scale of liberalisation which had started in the second half of the seventies gathered momentum as a wide range of measures relating to import liberalisation and industrial deregulation were introduced. There was for the first time an awareness in the policy-making circles of the undesirable effects of excessive protectionism, control and restriction that had

dominated the industrial scenario and the foreign-trade regime for nearly three decades. It was realized that a protected domestic market had acted as a disincentive for exports and had contributed to the poor quality of India's manufactures. Liberalization of imports was used as an instrument for technological upgradation so as to make the Indian industries more competitive. The policy makers envisaged a very important role for the Large Industrial Houses and the Transnational Corporations in promoting the country's exports. There was an expectation that the liberalisation package would enable these industries to achieve economies of scale and thereby improve their competitiveness in the international markets while the liberal import of technology would help narrow down the technological gap between India and the develped world, resulting in easier acceptance of Indian products abroad. The Sixth Plan document pronounced for the first time that "it will be necessary to bring about a reorientation in the economy from producing wholly for the domestic market to producing both for the domestic and the international market, thus earning foreign-exchange for the country and at the same time benefiting the domestic economy through reduction of costs and improvement of quality."[29] The strategy of producing also for the international market marked a departure from the conventional approach of exporting the country's surpluses.

The liberalisation package, however, needs to be discussed in the background of certain developments on the economic front of the country. First, there was a widening trade-gap, accentuated by the second rise in the oil prices, which placed India on the verge of an eminent foreign-exchange crisis in 1980-81.[30] The second development - the massive I.M.F. loan of November 1981-was a direct consequence of the first. Under the Extended Financing Facility of the I.M.F., India received a loan of SDR 5 billion - the largest loan ever contracted by the Indian government.[31] The impact of the IMF loan on India's foreign-trade sector was two-fold. Firstly, it substantially enhanced the future debt-service obligations, further pushing up the foreign-exchange requirements of the country; secondly, certain conditions on the loan, as laid down in the letter of intent of the Indian government provided the basic framework of the country's export policies in the years to come. According to the letter of intent, the programme of import liberalisation was to be continued, especially with regard to raw-materials, intermediate goods and capital goods. Throughout the duration of the arrangement, no import restriction was to be imposed or intensified for balance of payments reasons and no multiple currency practices to be introduced. The access

of exporters to imports was further to be facilitated. The most significant however were the conditions relating to promotion of exports. Industries with high potential were to be identified and provided with special incentives like cash compensation, fiscal and import concessions and a simplified and more comprehensive procedure for the advance licensing scheme, while distincentives to the exporters in the form of domestic and trade taxes, quantitative restrictions and administrative constraints are to be removed.[32]

The recommendations of a number of committees set up in the eighties for review of trade and industrial policies of the country had an important bearing on the programme of liberalization and export promotion adopted in the eighties. The first of these was the Committee on Export Strategy (1980). The Committee on a review of the industrial policy of the country and a detailed examination of the disadvantages being faced by the exporters recommended a "free-trade regime for exporters"[33] to enable them to have access to foreign technology, imported raw-materials and components without difficulty. It emphasised the need to remove gradually the high level of protection to the Indian industries which had resulted in high cost and poor quality of domestically available substitutes. It observed that licensing restrictions, MRTP restrictions and festrictions on imported technology all tend to limit the growth of creation of capacity in areas with

export potential and that relaxation of these restrictions could provide a considerable stimulus to export.[34] In order to achieve the desired results, it recommended a series of measures which included, inter alia,[35] (i) the automatic growth facility (which was introduced in 1975 subsequent to the Sondhi Committee recommendations) be extended to all units exporting more than 10% of their production (excluding MRTA and FERA companies); (ii) no restrictions to be placed on setting up of units in urban areas in case of units exporting more than 10% of their production; (iii) industrial units exporting more than 25% of their production continously over a period of three years to be allowed to import capital goods without paying duty; (iv) rationalisation of indirect tax structure for export-oriented units so that they are exempted from incidence of excise duties on raw-materials; (v) encourage emergence of transnationals from India (vi) reservation of footwear manufacture for the small-scale sector not to be applicable to large exporting units and export obligation to be introduced in a phased manner; (vii) a new category of export houses, namely, Trading Houses to be introduced; and (viii) keep the technology continously updated so that Indian Products remain acceptable abroad. To achieve this objectives, technology import policies and procedures should be considerably liberalised.

However two members of the Committee recorded their note of dissent and while raising serious doubts about the validity of many of the assumptions, questioned the desirability, in the socio-economic context of the country, of some of the recommendations made by the Committee. Some of the points put forward by them were

(a) in view of the recession in the rich industrial nations, the "quantum jump" in exports was unlikely to take place;

(b) some of the problems of the economy were in fact, due to the slowing down and postponement of the import substitution programme;

(c) the committees recommendations amounted to a bias "in favour of multi-nationals" in view of the well known fact of restrictive clauses included in foreign-collaborations which prohibit exports unless approved by the foreign collaborator;

(d) the strategy recommended by the committee was not based on any empirical study and it carried a distinct bias against social justice.

The recommendations of the Tandon Committee which were in many respects novel and marked a departure from the past policies left their undelible mark on the trade policies of the country in the coming years.

Yet another committee under the Chairmanship of Abid Hussain was constituted in 1984 to review the structure of

export and import policies, to examine the effectiveness of export promotion measures, and to suggest rationalisation and improvements in export policies, amongst other tasks. The Committee, while analysing the constraints on India's export performance observed that the competitiveness of India's export was contrained largely by domestic factors which manifested themselves in the cost of production, the pressure of domestic demand and non-price factors as also the relative profitability of exports. On a close examination of the existing export promotion policies it came to the conclusion that such policies were mostly a compensation for disadvantages faced by the exporters on account of domestic economic policies and that the element of incentive if any in such measures was very small. Secondly such compensation was not entirely adequate. Thirdly, even if the measures had been perfect in their operation there was a wide range of factors that constrained export performance which were left untouched by the regime of export promotion policies. On the basis of the above findings, the Committee made the following suggestions:

(a) The duty drawback scheme should provide a full reimbursement of taxes paid on imports that enter export production. The system of payment of drawback should be simplified, the delays in disbursement be reduced and classification problems be solved.

(b) The cash compensatory support regime should continue in its existing form. The cash compensation itself

should be exempted from income-tax. The rates of compensation should be rationalized and continued to be announced for a period of three years. The balance part of the cash assistance programme for product and market development should be efficiently used so as to focus on sectors where the country has a potential comparative advantage.

(c) The existing import replenishment system should be reformulated so that the exporter is provided with complete access to imported inputs at world prices; such import facilities should be duty free and subject to the actual user condition. A new system through the introduction of a pass book for the established manufacturer exporters in which the imports and the subsequent exports should be entered was also envisaged while the existing import replenishment system was recommended to be continued for merchant exporters, export houses trading houses and those manufacturer exporters who remained outside the new scheme.

(d) The real effective exchange rate of the rupee should not be allowed to appreciate in order to ensure competitiveness of exports.

(e) 50 percent of the profits from exports should be exempted from income-tax.

(f) Export industries should be exempted from capital licensing provisions and from restrictions on imports of capital goods and technology to enhance productivity.

(g) There should be an exchange entitlement scheme for exporters which would enable [illegible] to use a certain portion of their foreign-exchange earnings for the purpose of market development.

(h) Considering the problems being faced by the EPZ/FTZ, the Committee suggested that a fully empowered statutory authority for controlling all matters relating to all EPZ/FTZ should be created to provide a one window clearance without the need for reference to other Departments. Selection of industries to be located in the FTZ/EPZ should be based on the critaria of their contribution to technological development and skill creation. The Committee felt that aforesaid recommendations in respect of EPZ/FTZ should also apply to the 100%. Export Oriented units and suggested that the latter should be provided with a tax holiday for five years.[36]

The Commission also made certain recommendations about the institutional framework of the export sector and suggested that systematic studies for an evaluation of the institutional support be carried out so that necessary changes in these organizations could be initiated to make them more effective. The Commission further observed that the government should commission groups of experts to make an in-depth study of infrastructural constraints on export performance and suggest feasible solution. A large number of these recommendations have already been implemented or are in the process of implementation.

The Committee on Export of Engineering and capital goods under the Chairmanship of D.V. Kapoor looked into the export potential of the engineering goods and observed that the Large Houses were not utilizing their resources and capabilities for exports mainly because of a protected domestic market. The Committee emphasized the need for identifying certain thrust industries which should be allowed the facility of liberal import of technology, made free from the restrictions under MRTP/FERA. The Committee was of the opinion that the export incentives should be made available to these industries both for their domestic and export operation. In case the proposed benefits and incentives failed to create the required level of interest of the large companies in export activities, the Committee felt such manufacturers should be asked to draw up long term export plans as also medium term targets which should be monitored by an Empowered Committee (the setting up of which was recommended by the Kapoor Committee).[37]

Yet another committee was set up in the eighties under the Chairmanship of M. Narasimhan to review the industrial policy of the country in the context of a possible shift from physical control to financial controls. The Committee while examining the issues relating to physical controls of production, investment and imports, recommended that delicensing should be introduced for certain industries -

industries producing for the export sector being one of them and that the criteria of efficiency should play a decisive role in issuance of lincences in case of industries in which the licensing system was to be continued. As regards further liberalisation of imports, the Committee observed that there should be a reduction of the role of import licences through its replacement by tariffs, a reduction of import protection and a reduction of the canalisation of imports. These recommendations though not directly related to export promotion as such had a bearing on the exports in view of the inter-linkages between the industrial and export policies.

The recommendations of the various committees as indicated above had a considerable impact on the subsequent policy-formulation. The government readily accepted many of the suggestions made by these committees and incorporated them in the export policy of the country. The gradual liberalisation of the export policy was reflected in the introduction and expansion of certain fiscal, financial and compensatory measures aimed at increasing the country's exports. India's present export policy is characterized by a selective approach, which focusses on identification of certain products, sectors and industries, having a good export potential, and seeks to provide a policy-framework

to facilitate exports from these sectors. The objective of this strategy is to maximise the results from the optimal allocation of limited available resources. The fourteen "thrust" sectors, so identified are

(1) Tea, (especially in packages and value-added form)

(2) Cereals (inparticular wheat)

(3) Processed fruits (including fruits and juices, meat and meat products and fresh fruits and vegetables)

(4) Marine Products (especially in value-added forms)

(5) Irone-one

(6) Leather and leather manufactures (with an emphasis on the latter).

(7) Handicracts and Jewellery

(8) Capital goods and Consumer Durables

(9) Electronic goods and Computer Softwere

(10) Basic Chemicals

(11) Fabrics, piece-goods and made-ups

(12) Ready-made Garments

(13) Woollen fabrics and knit-wear

(14) Projects and services.

It may be seen that an important role has been assigned to the manufacturing and service sectors in the export promotion effort. In case of the few traditional commodities which have been included in the list the emphasis is on value addition. This is to ensure a higher unit-value realisation for the exports.

During the eighties certain new export promotion schemes were evolved while the institutional framework and exemptions from certain regulatory provisions for the exporting industries were further expanded.

The scheme of 100 per cent Export Oriented units was introduced in December 1980. The idea behind the scheme was to extend the benefits and concessions admissible to the industries located in the FTZ/EPZ to industries located elsewhere in the country (i.e. in DTA) subject to export of their entire production. The scheme was expected to generate additional production capacity for exports. The 100% E.O.U.s are required to undertake manufacture-in-bond and export for a period of 10 years ordinarily and 5 years in case of products characterised by a high degree of technological change. Such units are allowed import of capital goods, components, spares, raw-materials and consumables free of duty, and without the requirement of import-licence. Indigenously procured capital goods, components and raw-materials are allowed to these units without the payment of central excise duty. This scheme has been discussed in further details in Chapter IV.

During the eighties, four more Export Processing Zones were set up at Cochin, Madras, Falla and Noida, while a Gem and Jewellery complex came up in the Santa Cruz Electronics Export Processing Zone. The EPZ have been dealt more elaborately in Chapter IV.

Another important development of the present decade has been the creation of an apex financial institution for foreign-trade. The EXIM Bank was set up by the government in 1982 with four-fold objectives - (i) providing financial assistance to exporters and importers, (ii) functioning as the apex body for co-ordinating the work of the institutions engaged in financing of export and import of goods and services, (iii) financing export oriented industries and (iv) financing promotional activites necessary in international trade. The current focus of the Bank is on non-traditional exports of Indian machinery, manufactured good, consultancy and technology services on deferred payment terms. Exim Bank finance is also available at export production stages. Exim Bank undertakes co-financing with global and regional development agencies and assists Indian exporters in their efforts to participate in overseas joint ventures and projects. Exim Bank's advisory services provide access to euro-financing and global credit sources for Indian companies engaged in exports. As a development bank the Exim Bank seeks to remove the barrier of international competitive finance that can impede the endeavours of the Indian exporter in exporting industrial goods. The Bank is currently seeking to achieve this end through this end through thirteen lending programme.[38] As on 31st December 1987, the Bank had a paid-up capital of

Rs.194.50 crores (equivalent to U.S. $ 1.?? billion). The Bank raises loan resources from domestic and international markets.

Keeping in view the high export potential of the Gem and Jewellery sector, the Government of India introduced in October, 1980 a new scheme permitting the export of gold jewellery against gold supplied by foreign-buyers (The scheme was designed to replace the gold jewellery Export Replenishment Scheme introduced in 1978 but suspended in January 1980). It provided for export of gold ornaments and articles (other than coins) including studded ones against gold, supplied free of charge, in advance by foreign buyers to the extent of the quantity of gold used in the manufacture of items to be exported. The value added in the process of manufacture of the artilcle is required to be not less than 15% over the value of gold content while the purity of gold is required to be not less than 14 carats. The scheme applies to export orders received by the Handicrafts and Handloom Export Corporation directly or through their associates viz. registered exporters with the gem and jewellery Export Promotion Council, co-operative societies of certified gold-smiths and corporations owned or controlled by the government.

The Import-Export Pass Book Scheme, on the lines suggested by the Abid Hussain Committee in 1984 was introduced under the Import-Export Policy for 1985-88. The scheme was originally meant exclusively for registered manufacture exporters (who have been regularly manufacturing for exports for a period of not less than three years) but was subsequently extended to Export/Trading Housing who are otherwise eligible for issue of import licences. It provides for duty-free imports of inputs for manufacture of export products and may be considered as a further extension of the Advance Licensing Scheme. The finished products are required to be exported within the period stipulated in the Pass Book, and input-output norms are prescribed for such manufacture. With the introduction of "Special Imprest Import-Export Pass Book", deemed exports are also now covered within the Scheme.

During 1987-88, certain new concessions were introduced while some of the existing ones were carried further. It was decided to extend the Export Credit and Guarantee Corporation cover on concessional terms to "deemed exports." A new Blanket Exchange Permit Scheme, replacing the earlier schemes was also introduced. Under the new scheme a more liberal grant of foreign-exchange to the exporters for such purposes as foreign-travel, participation in trade fairs

abroad, market studies, opening and maintenance of branch offices abroad, advertisements in foreign countries etc. has been envisaged. The minimum qualifying amount of foreign-exchange earning under this scheme has been fixed at Rs. five lakhs in case of products appearing in the select list and Rs.20 lakhs in case of other products. The year also saw further liberalization in norms for agency commission payments by exporters, concessional import duties on additional items for leather, marine products and gem and jewellery sectors, further liberalisation of policy for import of raw-materials and machinery, and credit facilities to exporters from financial institutions against re-imbursements to be received by them under the I.P.R.S. at a future date. In the Finance Act for 1987-88, with an amendment to Section 80 HHC of the Income Tax Act, all earnings from exports are now exempt from the levy of income-tax. The liberalizations under the Industrial Licensing Policy have already been discussed earlier in this Chapter.

Export Promotion has therefore been a major factor contributing to the gradual shift in economic policies bringing with it liberalisation of a scale not seen before. It appears that we have come close to the "free-trade regime for exporters" as envisaged in the Tandon Committee Report of 1980. Yet there is clamour for further concessions.

It is interesting to note that no serious efforts have so far been made to ascertain the overall financial cost of these concessions and exemptions to the national economy, neither has there been any periodic and comprehensive evaluation of these export promotion schemes to assess their contribution to the exports. In view of the critical foreign-exchange situation faced by the country and the conditionalities of the I.M.F. loan, it is unlikely that there will be any reversal in the liberalized export policies in the years to come.

CHAPTER III

INDIA'S EXPORT PERFORMANCE

India's export performance bears the unmistakable imprint of the country's export policies. The initial policy which has been described as one of indifference and pessimistic neglect, evolved into growing encouragement and subsequently positive promotional measures and culminated in a great thrust in favour of the export sector. All of this was reflected to a considerable extent in the performance of the external sector.

During the decade 1950-1960, India's exports remained more of less stagnant. The annual average earning from exports during the First Five Year Plan was Rs.609 crores, which probably would have been smaller but for the exceptionally high exports in 1951-52 on account of the war in Korea. During the Second Plan period, the average annual exports stood at Rs.61[illegible] crores which might have been higher but for the recession in 1958 in U.S.A. and Europe.[1] During this period, there was an overall decline in the exports of traditional items while new items like minerals and certain new manufactured products made their appearance in India's export basket.

In the sixties, the policy of growing encouragement to the export sector with the initiation of a number of

promotional measures, though on a moderate scale, resulted in an expansion of the export sector.[2] Exports grew at an annual compound rate of 4.1 per cent from Rs.660 crores in 1960-61 to Rs.806 crores in 1965-66. During the Third Plan period, there was also a noticeable change in the commodity composition and direction of exports. The share of tea, cotton textiles and jute manufacturers - three major traditional commodities in the export basket- declined, while those of handicrafts, iron & steel and engineering goods registered increases. The fast growth of engineering goods, chemicals and certain other new items in the country's exports was a significant development as also the substantial expansion of trade relations with U.S.S.R. and the East European Countries.

In 1966-67, exports registered a decline of 8 percent compared to those of the preceding year. This was largely a consequence of drought conditions prevailing in the country at that time which restricted the supply of agricultural commodities and agro-based products for exports, in addition to other contributory factors such as temporary dislocation of trade caused by devaluation, depressed demand conditions in the world market etc. The trend was however reversed in the subsequent year (i.e. 1967-68) which recorded an increase of 3.6 percent in the export sector. The period 1966-1968 was characterized by

a substantial increase in the exports to the E.C.A.F.E. countries, and a marginal increase to the countries of East Europe.

A break-through in India's exports came in the two years of the Fourth Five-Year Plan. During this plan period, exports reached an annual average growth rate of 13.2 per cent (compound growth rate) against the target of 7 per cent envisaged in the Fourth Plan. The annual growth rate was, however, much above the average in 1972-73 and 1973-74 when exports registered steep increases of 22.5 and 28 per cent respectively.[3] The increasing liberalisation of policies which had been initiated some time back finally started to yield results. But a more important factor appears to be the commodity boom in the international market which largely contributed to this success. During the mid-seventies, the inflationary conditions prevailing in the world market (which had affected India also but was kept under control through a series of fiscal measures and a better performance of the economy) helped India achieve an improved unit value realisation from exports. The structural change in India's export sector which had started taking place more than a decade back also became more noticeable during this period. The combined share of the major traditional exports viz.

jute manufactures, tea, coffee, cotton piece goods and semi-processed leather in total exports of the country decreased from 55.4 per cent in 1960-61 to 51.4 per cent in 1965-66, reaching the level of 28 per cent by 1974-75. At the same time, the combined share of the newer items, viz. Engineering goods, Chemicals and allied products, Fish and Fish preparations. Sugar, Iron-one and Handicrafts (including Gems and Jewellery) went up from 7.2 per cent in 1960-61 to 14.4 per cent in 1965-66 and to 36 per cent by 1974-75.[4] It was during the Fourth Plan period that India achieved a marginal trade surplus amounting to Rs.154 crores in 1972-73 for the first time since independence.[5]

The tempo of higher growth in exports was maintained and in fact further improved during the first three years of the Fifth Five Year Plan (1974-75 to 1977-78). In 1974-75, exports attained a growth of 32 per cent followed by 20.8 per cent in 1975-76 and 27.2 per cent in 1976-77. However the recession in the industrialized countries that followed the inflation of the mid-seventies brought in its wake a depressed international trading environment with a decline in the international prices of a number of commodities and rising protectionism in the developed countries. This coupled with supply constraints at home for many of our export items allowed only a moderate performance

on the export front during the next four years (1977-78 to 1981-82),[6] When exports registered annual growths rates of 5.2 percent, 5.9 per cent, 12.1 per cent and 4.6 per cent.[7]

During the Fifth Plan period, manufactured and value added products like Engineering goods, Gems and Jewellery, Chemicals and Allied products, Leather manufactures, Ready-made garments etc. constituted a substantial chunk of India's exports. E.S.C.A.P. with a share of 25.7 per cent of India's total exports emerged as the largest importing region for Indian goods. The E.E.C. countries, also registering a very significant increase during this period, came second. So far as the individual countries were concerned, U.S.A., U.S.S.R., Japan and U.K. remained the largest single buyers of Indian products although their relative positions changed from year to year. In 1976-77, for the second time since independence, India achieved a favourable balance of trade, involving a trade surplus of Rs.72 crores.

After a disappointing performance in the first year of the Sixth Plan, exports registered a marginal increase in the next four years of the Plan, which witnessed growth-rates of 16.3 per cent (1981-82), 12.8 per cent (1982-83), 11.00 per cent (1983-84) and 20.2 per cent (1984-85).[8]

The rising imports and the widening trade gap since the beginning of the eighties necessitated intensification of export effort ~~exports~~ and this period was characterized by policy liberalisation of a scale not seen before. But even the liberalised export promotion measures could ensure only moderate achievements as shown above, mainly on account of certain internal and external constraints. On the domestic front low productivity, high cost of production, infrastructural bottlenecks and inferior quality made the Indian products uncompetitive in the world market. But the greatest disincentive for exports appears to be the strong pull of the vast domestic market which still enjoyed a fairly high degree of protection. The external constraints were a continued demand recession in the world market, growing protectionism in the developed countries, further decline in the prices of many commodities, unstable exchange rates, a weak marketing infrastructure with limited market access, inadequate shipping facilities, etc. The hope that the large industrial houses and multi-national corporations would make a big dent in the country's exports also did not materialize. It is against this background that the export performance of the country in the eighties needs to be judged.

After the promising growth of 20.2 per cent in 1984-85, exports in 1985-86 slumped ~~by~~ to 7.2 per cent. Much of this

decline in growth is attributed to the stoppage of crude oil exports after April '85 when the requisite refining capacity was set up within the country. The sharp fall in the international prices of some of the commodities was another contributive factor. During 1985-86 there was a decline in the export of Oil-cakes, Tea, Tobacco, Cotton fabrics, Leather and Leather manufactures, Engineering goods and Jute manufactures. Certain commodities however registered increases. These included Cashew Kernels, Coffee and Coffee substitutes, Spices, Marine products, Raw-cotton, Rice, Iron ore, Ready-made Garments and Gems and Jewellery.

In 1986-87 there was a recovery with exports once again registering an increase of 15.3 per cent. The achievement however becomes moderate when one looks at the fact that there had been a negative growth rate in exports (-7.2 per cent) in the preceding year and therefore the true base for comparison should have been 1984-85. It is pertinent to note that this improved performance was possible inspite of continued sluggishness in the international trade scenario and a declining trend in the prices of many of the commodities. The principal commodities which contributed to this increase in exports included Coffee, Cashew Kernels, Oil-cakes, Fruits and Vegetables,

Marine Products, Cotton raw, Gems and Jewellery, Plastic and Linoleum products, Readymade garments, Man-made textiles and Carpets (hand-made). The items which registered a decline included Tea, Rice, Wheat, Iron-Ore, Sports goods, Basic Chemicals, Engineering goods, Coir and Coir manufactures and Petroleum Products.

The available data of exports in 1987-88 which is provisional in nature indicates a substantial increase of 25.08 per cent over the preceding year. This has been reported to be the highest increase in the eighties. The items which registered an increase in their exports include Tea, Rice, Wheat, Fruits and Vegetables, Meat and Meat products, Marine products, Leather and Leather manufactures, Gems and Jewellery, Sports goods, Basic chemicals, Engineering goods, Cotton fabrics, Yarn, Made-ups, Natural Silk textiles, Wool and Woollen manufactures, Readymade garments, Man-made textiles, Carpet (hand made) and Petroleum Products. Coffee, Tobacco, Oil-cakes, Cotton raw, Coir and Coir manufactures, Jute manufactures and Carpets (mill-made) however suffered a decline in their exports.

Table III.1 shows India's exports and imports (aggregate), their percentage-wise growth and balance of trade during the period 1977-78 to 1987-88 while Graph III.1

shows the growth in imports and exports during the aforesaid period. Pie Charts III.1 and III.2 show at a glance the Composition of India's exports (in per cent) and destination of India's exports (in per cent) in 1986-87.[10]

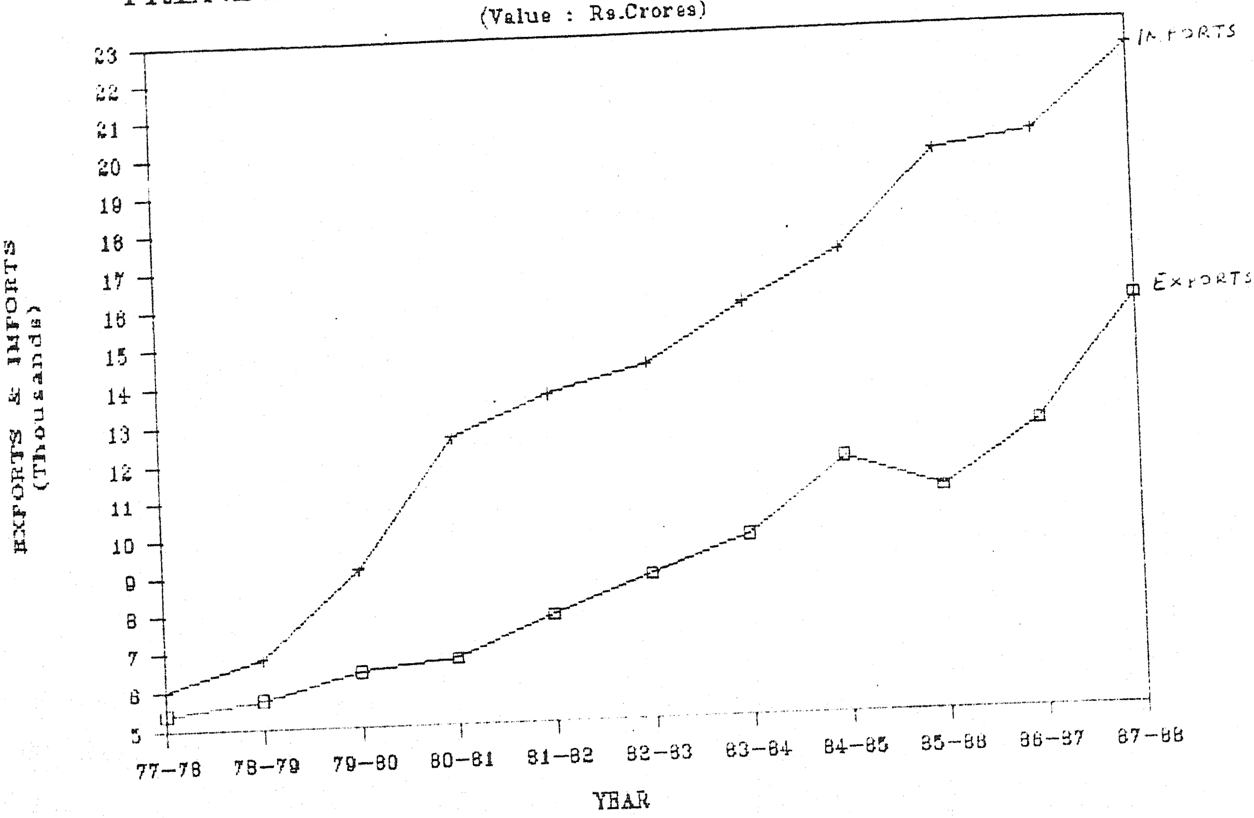
TABLE III.1: INDIA'S FOREIGN TRADE

(Value:Rs.Crores)

Year	Export	Percentage change over the previous year	Imports	Percentage increase over the previous year	Balance of Trade
1977-78	5407.87	+5.2	6020.23	+18.7	-612.36
1978-79	5726.07	+5.9	6810.64	+13.1	-1084.57
1979-80	6418.43	+12.1	9142.58	+34.2	-2724.15
1980-81	6710.70	+4.6	12549.15	+37.3	-5838.45
1981-82	7805.90	+16.3	13607.56	+3.4	-5801.65
1982-83	8803.37	+12.8	14292.74	+5.0	-5489.37
1983-84	9770.71	+11.0	15831.46	+ 10.8	-6060.75
1984-85	11743.68	+20.2	17134.20	+8.2	-5390.52
1985-86	10894.59	-7.2	19657.69	+14.7	-8763.10
1986-87	12566.62	+15.3	20083.53	+2.2	-7516.91
1987-88	15719.36 (P)	+ 25.08	22343.02 (P)	+ 11.25	-6623.66

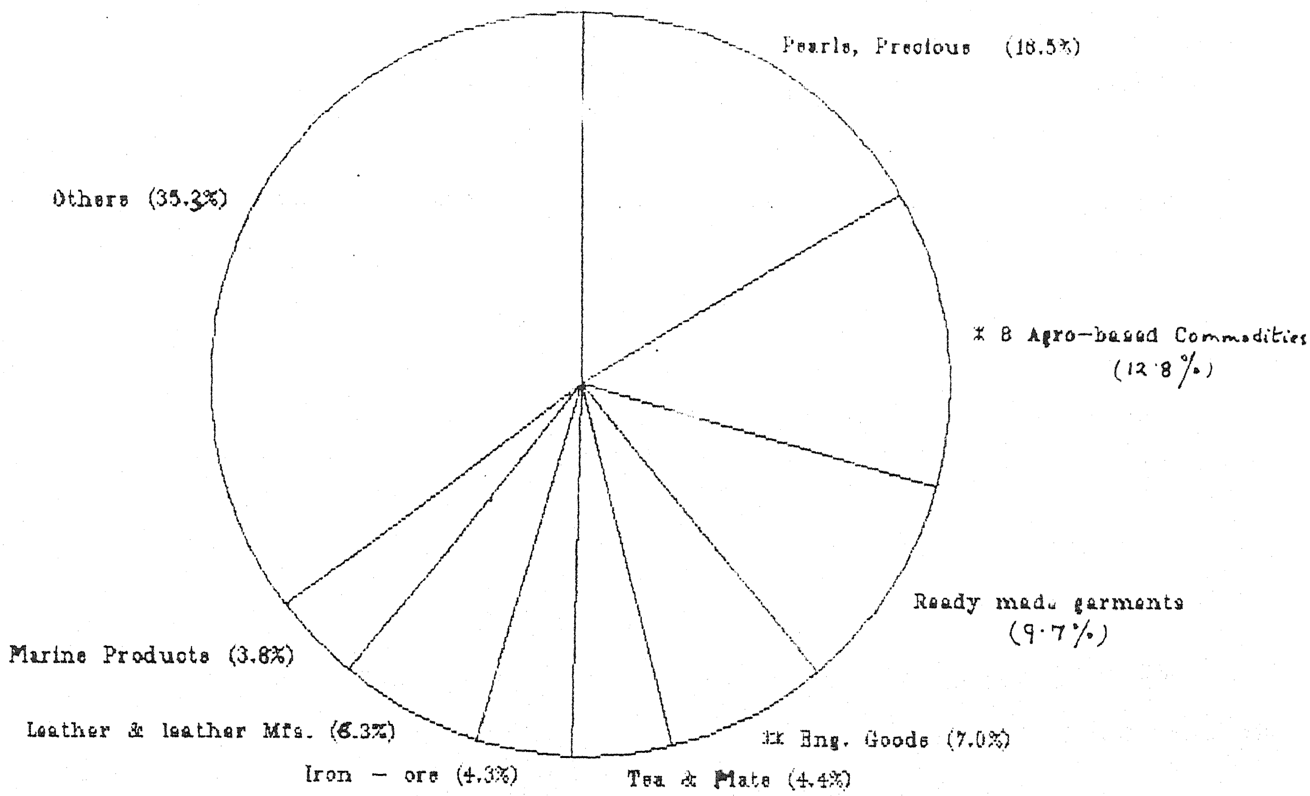
TRENDS IN INDIA'S EXPORTS AND IMPORTS

(Value : Rs.Crores)



COMPOSITION OF INDIA'S EXPORTS 1986-87

(in percent)

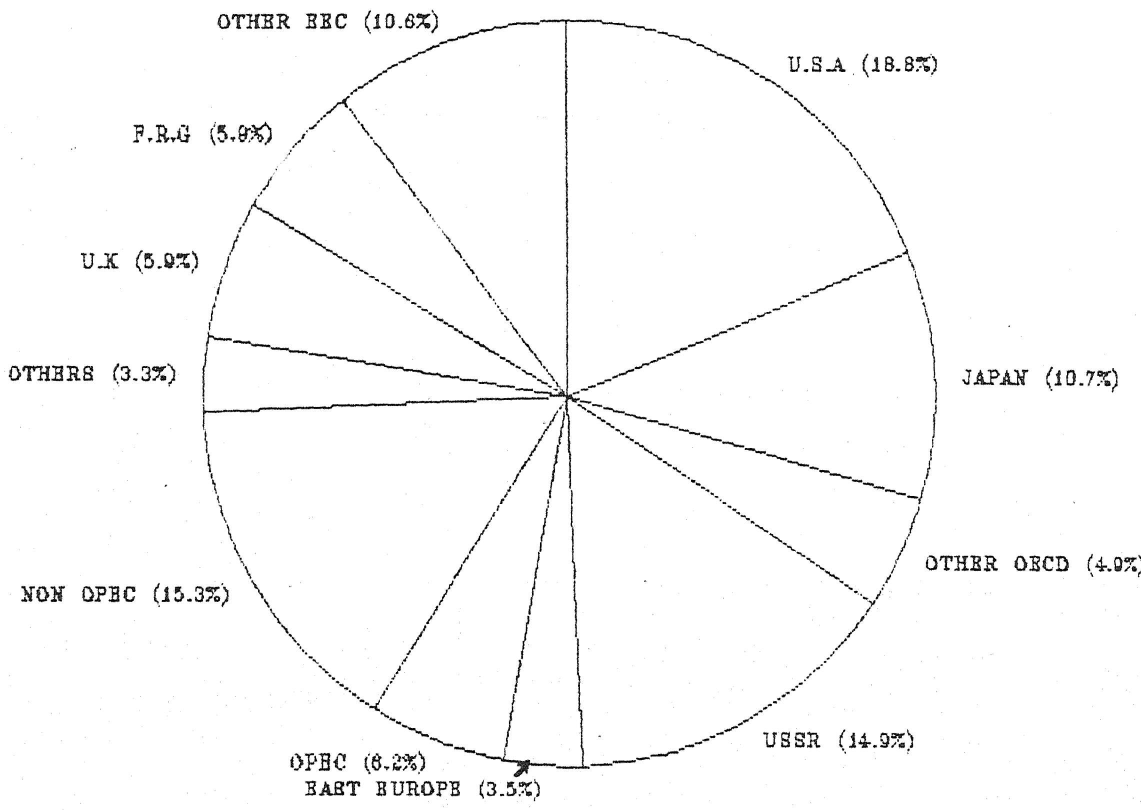


* Include Coffee & Coffee Substitutes, Cashew kernel, Raw Cotten, Oil-cakes, Rice- Sugar, Tobacco & Species.

** Include Machinery and Transport Equipment and Metal Manufactures excluding Iron & Steel.

DESTINATION OF INDIA'S EXPORTS 1986-87

(in per cent)



Tables III.2 and III.3 indicate the value of exports of the principal commodities and the destination of exports to the major regions/sub-regions during the period 1985-86 to December 1987, along with the percentage growth/decline as the case may be.

While evaluating India's export performance in the last two decades or so, certain factors need to be considered. First, the imports have always been higher than the exports except in two years (1972-73 and 1976-77) when there was a marginal trade surplus. This shows that our exports have not been able to catch up with our imports, despite large-scale concessions and liberalization of policies. In the eighties the trade deficits have assumed alarming proportions as is evident from Table I.

Secondly, the performance in real terms is not all that impressive as it seems to be. Table III.4 shows the growth of India's exports and imports during the period 1970-71 to 1981-82 at constant prices of 1976-77.[11] Although there has been a more than five times increase in India's exports during this period, in real terms (i.e. at constant prices of 1976-77), the exports have increased from Rs.3041.23 crores to Rs.5661.92 crores only i.e. exports less than doubled. The falling value of the Indian rupee vis-a-vis the major currencies of the world has tended to inflate our export figures. This also becomes evident when

TABLE III.2: EXPORTS MAJOR COMMODITY GROUPS

(Value in Rs.Crores)

Sl. No.	Commodity	1985-86 (PR)	1986-87 (PR)	Percentage change 1986-87 / 1985-86	April-September(P) 1986	April-September(P) 1987	Percentage change April-September 1987 / April-Spptember 1986
1	2	3	4	5	6	7	8
1.	Cashew kernels	225.1	320.6	42.4	192.1	212.2	10.5
2.	Coffee & coffee substitutes	264.9	306.2	15.6	193.7	166.7	-13.9
3.	Fish and fish preparation	409.0	478.5	17.0	180.5	258.0	43.0
4.	Oil cakes	134.0	187.2	39.7	89.9	80.1	-10.9
5.	Raw cotton	68.2	182.1	167.1	84.1	83.8	-0.4
6.	Rice	196.3	164.8	-16.0	85.5	145.6	70.3
7.	Spices	277.8	269.1	-3.1	163.1	146.6	-10.1
8.	Sugar	15.8	0.9	-94.5	0.5	0.2	-52.9
9.	Tea & mate	626.3	549.7	-12.2	207.7	267.1	28.6
10.	Tobacco	169.6	174.3	2.8	130.1	103.9	-20.2
11.	Iron ore	578.8	543.2	-6.1	226.1	251.0	11.0
12.	Engineering goods*	897.9	875.0	-2.6	416.2	540.3	29.8
13.	Chemicals & allied products	497.5	474.5	-4.6	216.5	329.7	52.3

1	2	3	4	5	6	7	8
14.	Cotton fabrics	573.7	562.1	-2.0	271.2	466.3	72.0
15.	Iron & steel	56.2	56.9	1.2	31.3	66.6	112.6
16.	Jute manufactures	261.8	265.0	1.2	108.9	101.3	-7.0
17.	Leather & leather manufactures incl. footwear	769.9	787.2	2.2	317.0	491.3	55.0
18.	Readymade garments	1067.0	1218.3	14.2	501.0	779.4	55.6
19.	Handicrafts						
	Of which: Gems and Jewellery	1502.7	2069.3	37.7	880.3	1251.2	42.1
20.	Others						
	Of which: Crude oil	135.2	-	-	-	-	-
	Total Exports	10894.6	12566.6	15.3	5857.4	7411.3	26.5

*Includes machinery and transport equipment and metal manufactures excluding iron and steel.

'P' : Provisional.

'PR' : Partially Revised.

Source: India, Economic Survey, 1987-88, p-89.

TABLE III.3: INDIA' EXPORTS BY REGIONS/SUB-REGIONS

(Value Rs.Crores)

Sl. No.	Region/Sub-Region	1984-85	1985-86	Percentage change 1985-86	1986-87 (P)	Percentage change 1986-87 over 1985-86	April-December, 1986 (P)	April-December, 1987 (P)	Percentage change April-December, 1987 over April-December, 1986
1	2	3	4	5	6	7	8	9	10
I.	WEST EUROPE	2190.70 (22.1)	2125.69 (20.7)	-3.0	3113.48 (25.5)	+46.5	2125.46 (24.2)	3001.47 (28.3)	+41.2
	a) ECM Countries	2002.05 (20.2)	1928.57 (18.8)	-3.7	2803.71 (22.9)	+45.4	1910.22 (21.8)	2721.63 (25.7)	+42.5
	b) EFTA Countries	181.48 (1.8)	184.19 (1.8)	+1.5	271.11 (2.2)	+47.2	184.14 (2.1)	250.25 (2.4)	+35.9
	c) Rest of West Europe	7.17 (0.1)	12.93 (0.1)	+80.3	38.66 (0.3)	+199.0	31.10 (0.4)	19.59 (0.3)	-4.9
II.	EAST EUROPE	2263.57 (22.8)	2415.80 (23.6)	+6.7	2390.31 (19.5)	-1.1	1852.74 (21.1)	1874.37 (17.7)	+1.2
III.	ASIA & OCEANIA	3175.68 (32.0)	3233.38 (31.6)	+1.8	3840.05 (31.4)	+18.8	2724.91 (31.1)	3268.17 (30.8)	+19.9
	a) ESCAP	2279.66 (23.0)	2356.73 (23.0)	+3.4	2953.86 (24.2)	+25.3	2108.58 (24.0)	2490.30 (23.5)	+18.1
	b) Rest of Asia	896.02 (9.0)	876.65 (8.6)	-2.2	886.19 (7.2)	+1.1	616.33 (7.0)	777.87 (7.3)	+26.2

1	2	3	4	5	6	7	8	9	10
IV.	AFRICA	376.84 (3.8)	349.02 (3.4)	-7.4	339.57 (2.8)	-2.7	250.58 (2.9)	285.20 (2.7)	+18.8
V.	AMERICA	1918.70 (193)	2125.97 (20.7)	+10.8	2543.98 (20.8)	+19.7	1817.87 (20.7)	2175.23 (20.5)	+19.7
	a) North America	1896.92 (19.1)	2105.87 (20.5)	+11.0	2508.80 (20.5)	+19.1	1792.49 (20.4)	2143.64 (20.2)	+19,6
	b) South America	7.36 (0.07)	8.75 (0.08)	+18.9	15.69 (0.1)	+79.3	9.49 (0 .1)	11.32	+19.3
	c) Other America	14.42 (0.1)	11.35 (0.1)	-21.3	19.49 (0.2)	+71.7	15.89 (0.2)	20.27 (0.2)	+27.6
	TOTAL OF ABOVE*	9925.49	10249.86	+3.3	12227.39	+19.3	8771.56	10604.44	+20.9
	GRAND TOTAL	11743.68	10894.59	-7.2	12566.62	+15.3	8978.43	11197.41	+24.7

(P : Region/Sub-region figures are preliminary/provisional and subject to revision.

* : The total of exports to all regions does not include exports of crude and petroleum products. These have been taken into account in the grand totals. Figures in brackets indicate percentage share of individual region/sub-region in total exports of all regions as shown at*

Source: DGCI&S, Calcutta.

TABLE III.4: INDIA'S EXPORTS AND IMPORTS (AT CONSTANT PRICES OF 1976-77) (1970-71 TO 1981-82)

(in Rs.Crores)

Years	Exports	Imports
1970-71	3041.23	4445.02
1971-72	3126.44	5336.17
1972-73	3448.90	5436.42
1973-74	3636.25	5825.13
1974-75	3822.66	5142.73
1975-76	4310.43	5114.76
1976-77	5142.30	5073.[illegible]
1977-78	4812.69	6576.28
1978-79	5139.91	7128.80
1979-80	5747.92	6816.47
1980-81	5548.37	10078.40
1981-82	5661.92	10018.90

Source: "V.R. Panchmukhi, Foreign Trade and Trade Policies," in P.R. Brahmananda & V.R. Panchmukhi, "The Development Process of the Indian Economy" Himalaya Publishing House, 1987, p-337.

one considers the increases in the volume of exports. Even during the peak period of 1973-74 ~~to 1976-77~~ to 1976-77 when exports had a phenomenal growth in terms of increases in their value, the corresponding increases in their volume was much less, as would be evident from Table III.5 below:

TABLE III.5: PERCENTAGE INCREASE IN THE VALUE AND VOLUME OF EXPORTS

Year	Percentage Increase in value of Exports	Percentage Increase in Volume of Exports
1973-74	- 28%	- 4.2%
1974-75	- 32%	- 6.4%
1975-76	- 20.8%	- 10.4%
1976-77	- 27.2%	- 18.4%

Source: GOI, Ministry of Commerce, Annual Report 1977-78, pp-2-3.

This suggests that better unit value realisations have largely contributed to the steep rises in exports rather than any substantial increase in volume of exports during the above years.

Thirdly, India's share in the world exports and also in the exports from developing countries has been steadily declining as can be seen from the data in Table III.6. The data clearly indicates that in a fiercely

TABLE III.6: PERCENTAGE SHARE OF INDIA'S AND DEVELOPING COUNTRIES' EXPORTS IN WORLD EXPORTS AND INDIA'S EXPORTS IN DEVELOPING COUNTRIES' EXPORTS (CURRENT PRICES) (1960 TO 1984)

(Billion of US $)

Years	World Exports	Exports of Developing Countries*	India' Exports**	India's Share in Developing Countries Exports
(1)	(2)	(3)	(4)	(5)
1960-61	118.1	34.096 (28.87)	1.332 (1.1278)	3.91
1961-62	122.7	33.802 (27.55)	1.386 (1.1296)	4.10
1962-63	128.1	34.838 (27.19)	1.403 (1.0952)	4.03
1963-64	140.6	38.635 (27.47)	1.635 (1.1565)	4.21
1964-65	157.0	41.472 (26.42)	1.705 (1.0859)	4.11
1965-66	170.4	44.200 (25.94)	1.687 (0.9902)	3.82
1966-67	187.0	47.707 (25.51)	1.954 (1.05)	4.09
1967-68	195.3	48.453 (24.81)	1.613 (0.8259)	3.33
1968-69	217.8	52.144 (23.9412)	1.761 (0.8085)	3.38
1969-70	249.2	58.177 (23.35)	1.835 (0.7364)	3.15
1970-71	286.5	65.029 (22.70)	2.026 (0.7072)	3.12
1971-72	321.2	72.824 (22.67)	2.034 (0.6333)	2.79
1972-73	382.2	86.885 (22.73)	2.448 (0.6405)	2.82

(1)	(2)	(3)	(4)	(5)
1973-74	532.7	129.877 (24.38)	2.917 (0.5476)	2.25
1974-75	789.2	247.114 (31.31)	3.926 (0.4975)	1.59
1975-76	809.7	236.436 (29.20)	4.355 (0.5378)	1.84
1976-77	919.8	279.836 (30.42)	5.549 (0.6033)	1.98
1977-78	1044.1	318.619 (30.52)	6.378 (0.6108)	2.00
1978-79	1206.5	336.118 (27.86)	6.671 (0.5529)	1.98
1979-80	1530.6	461.791 (30.17)	7.806 (0.5099)	1.69
1980-81	1874.7	615.476 (32.83	8.586 (0.4579)	1.39
1981-82	1843.7	602.638 (32.69)	8.295 (0.4499)	1.37
1982-83	1707.8	530.290 (31.05)	9.358 (0.5479)	1.76
1983-84	1663.5	499.037 (29.99)	8.648 (0.5198)	1.73
1984-85	1768.1	523.323 (29.59)		

*Share of developing countries in world exports (per cent) in parenthesis.

**Share of India's experts in world exports (per cent) in parenthesis.

Source: Economic Surveys, Govt. of India as reported in V.R. Panchmukhi, "Foreign Trade and Trade Policies", in P.R. Brahmananda & V.R. Panchmukhi, "The Development Process of the Indian Economy", Himalaya Publishing House, 1987, p-345.

competitive world market, India has not been able to keep pace with other countries, not even with other developing countries. Even the large-scale concessions and liberalisations of the eighties have failed to reverse this trend.

Fourthly, a close look at the destination of India's exports suggests that a big chunk of India's exports go to U.S.S.R. and East European Countries (18.4% in 1986-87) against rupee payment. On the other hand, the sources of import are primarily the hard-currency areas (Japan, U.S.A., U.K., Federal Republic of Germany and other O.E.C.D. countries together contributing 64.4% of our imports in 1986-87). USSR and East European countries merely accounted for 7.5% of India's imports in 1986-87. This suggests that on the one hand we are paying for our imports largely in hard-currencies while earning rupees from about one-fifth of our exports (figures for 1986-87).

Lastly, the trade statistics indicate that the share of Engineering goods, Chemicals and allied products and Iron & Steel, - the major non-traditional manufactured items-in the total exports of the country has actually declined or stagnated over the past few years. The exports of the engineering goods slumped from 11.3% of the total export in 1979-80 to 6.96% in 1986-87, Iron steel declined from 1.62% in 1979-80, to 0.45% in 1986-87 while Chemicals

and Allied Products registered very little increase during this period (being 3.06% in 1979-80 and 6.96% in 1986-87). It has been shown by K.S. Chalapati Rao[12] that while the exports of manufactured goods increased nearly three times from Rs.1682.12 crores in 1975-76 to Rs.6583.18 crores in 1984-85, 40.19 per cent of this increase was accounted for by Textiles and their Manufactures, 29.20 per cent by Handicrafts and 10.62 per cent by Leather manufactures including Footwear. Taking into consideration the other traditional exports like jute and coir products, the share of the traditional non high-technology sectors works out to 82.09 per cent of the total increase in manufacture exports during 1975-76 to 1984-85. This leaves the combined share of engineering and chemical industries at 17.91 per cent only. The findings of the aforesaid study suggest that the non-traditional or modern manufacturing sector is losing hold in India's exports.

On the whole one can conclude on perusal of the export statistics, that even after several decades of planned development the exports from India even today largely comprise low technology items and primary products, and the qualitative change sought to be achieved, has not been attained.

CHAPTER IV

SOME EXPORT PROMOTION MEASURES - AN EVALUATION

As discussed earlier the export incentive schemes as they exist today are a wide spectrum of measures, ranging from direct subsidies, reliefs from direct and indirect taxes and concessional credit to a liberalized import policy regime and exemption from various regulatory provisions generally applicable to the domestic industries (e.g. the operation of MRTP & FERA). In this chapter, we shall discuss five major schmes viz. (1) Cash Compensatory Support (2) Duty Drawback Scheme (3) Scheme of 100% Export Oriented Units, (4) Advance Licensing Scheme and make an attempt to evaluate their impact on India's exports (5) Free Trade Zone/Export Processing Zones.

IV.1 The Cash Compensatory Support

The Cash Compensatory Support Scheme which was first introduced in 1966 and subjected to various modifications from time to time (the last major review having been made in 1986) constitutes one of the most important export incentive schemes in operation today in terms of its total magnitude. The primary objective of the scheme is to compensate the Indian exporters for the elements of unrefunded taxes and duties paid on the exported goods. The present scheme of C.C.S. which is valid upto 31st March 1989 has the following broad features[1]

(a) Refund of indirect taxes including Sales Tax, etc. on inputs that are not refundable through the duty

drawback mechanism, whether these taxes have been levied on physically incorporated inputs or non-physical inputs such as fuel, power, etc. The incidence of indirect taxes is worked out not only on the basis of unrebated indirect taxes paid on inputs directly used in the production of the export product but at earlier and intermediate stages of production also.

(b) For agricultural items, such as fruits and vegetables which are perishable in nature, a special element of compensation is provided for the high cost of transportation within India as also the cost of air freight.

(c) For handicraft items, the value added by labour is one of the main factors considered for determining the CCS rates.

(d) Neutralisation of discriminatory higher freight rates on account of various factors like low total volume of trade, discriminatory rates adopted by conference lines, etc.

(e) Compensation for product/market developments which is considered in a selective manner.

(f) CCS rates are restricted to 25 per cent of the value added i.e. f.o.b. realisation less REP entitlement (under the import policy for Registered exporters).

Under the Scheme approximately 260 items have been granted CCS in eight product groups viz. engineering goods, chemicals and allied products, plastic goods, agricultural

products and processed food items, leather goods, sports goods, textiles and handicrafts.

Generally seven levels of CCS rates viz. 5 per cent, 8 per cent, 10 per cent, 12 per cent, 15 per cent, 18 per cent and 20 per cent have been prescribed. Project assistance of 10 per cent has also been granted with effect from 1.7.1986 for services part of turnkey projects and package projects of civil engineering construction services (including computer services and software). Effective from 17.2.87, project assistance has also been extended to the operation and maintenance (O&M) Service Contracts. The rates of CCS in respect of all product groups excepting cotton textiles items, are valid upto 31st March, 1989.

In addition to the physical exports, CCS is also allowed on certain types of supplies made in India which are considered as "Deemed Exports". CCS on such supplies is allowed at 75 per cent of what is admissible on physical exports. These supplies include supplies to IDA/IBRD financed projects in India, supplies to projects financed by multi-lateral/bilateral external agencies, supplies of certain equipments, raw material, etc. to 100 per cent Export Oriented Units, supplies made from Domestic Tariff Area to units in Free Trade Zones, supplies made to ONGC and Oil India for their off-shore and on-shore drilling operations etc.

Table IV.1 shows the growth of C.C.S. over the period 1973-74 to 1987-88. It may be seen that there has been a spectacular increase in the amount of C.C.S. disbursed over the 15 years' period commencing from 1973-74. The growth is however not uniform, varying from 106.51% in 1975-76 to -4.21% in 1983-84. There does not appear to be any correlation between growth of CCS and the growth of the country's exports as is evident from the above Table. Even when C.C.S. registered negative increases as in 1979-80, 1982-88 and 1983-84, the country's exports grew by 12.1%, 12.8% and 11% respectively. Similarly, a high rate of increase in the C.C.S. did not necessarily bring about a corresponding increase in the exports, as may be seen from the export performance indicated in columns 2 and 3 of Table IV.1. However, on the whole it can be stated that over the period, 1973-74 to 1986-87 ~~1987-88~~, the growth of India's exports has by and large fallen far behind the growth of C.C.S. While the total quantum of C.C.S. disbursed increased almost fourteen times during this period, exports increased only five times.

The other aspect which needs consideration is the performance of the industries which received the maximum share of C.C.S. In 1981-82, five groups of commodities, namely Engineering goods, Chemical and Allied Products, Leather Goods, Handicrafts and Cotton Handlooms togather

TABLE IV.1: TRENDS IN GROWTH OF EXPORTS AND EXPORT ASSISTANCE

YEAR (1)	Exports (Rs. Crores) (2)	Per-centage change (3)	Duty Drawback (Rs. Crores) (4)	Percen-tage change (5)	Cash compen-satory support (Rs.Crores) (6)	Percen-tage change (7)	Market Develop-ment Assis-tance(Rs. (Crores) (8)	Percen-tage change (9)
1973-74	2523.40	-	42.3	-	52.4	-	62.4	-
1974-75	3328.63	31.9	60.0	41.84	59.9	14.31	76.4	22.4
1975-76	4026.26	31.3	82.0	36.67	123.7	106.51	148.3	94.11
1976-77	5142.71	27.4	120.0	46.34	226.4	83.02	239.6	61.56
1977-78	5407.87	5.2	133.0	10.83	310.3	37.05	324.4	35.39
1978-79	5726.07	5.9	150.0	12.78	359.0	15.69	375.2	15.66
1979-80	6418.43	12.1	152.0	1.33	344.1	-4.15	360.9	-3.81
1980-81	6710.70	4.6	151.5	-0.33	376.4	9.39	399.1	10.58
1981-82	7805.90	16.3	193.0	27.39	452.4	20.19	476.9	19.49
1982-83	8803.37	12.8	205.05	6.24	448.8	-0.80	476.3	-0.13
1983-84	9770.71	11.00	180.21	-12.11	429.9	-4.21	461.4	-3.13
1984-85	11743.68	20.2	212.7	18.03	485.5	12.93	517.9	12.25
1985-86	10894.59	-7.2	241.89	13.72	561.74	15.7	602.81	16.39
1986-87	12566.62	15.3	294.75	21.85	739.20	31.59	785.33	30.28
1987-88	15719.36	25.08	-	-	~~200.25~~ 900.25	21.79	962.11	22.51

Source: (i) Ministry of Finance, Deptt. of Revenue, Drawback Directorate for column (4).

(ii) Ministry of Commerce for column (6) and (8) for the period 1984-85-1987-88.

(iii) Report of the Committee on Trade Policies 1984 for the period 1973-74 to 1983-84 in respect of column (6) and (8) and 1973-74 to 1976-77 for column (2).

(iv) Ministry of Commerce, Annual Report 1987-88.

accounted for 78.9% of the total C.C.S. disbursed. However their contribution to the total exports of the country was just 30.78%[2] In 1986-87, these commodities[3] together received 73.83% of the total C.C.S. disbursed, while their share in the total exports of the country was 35.86% showing a very marginal increase of 5.06% over a period of five years. The primary objective of the C.C.S. is to make the products covered by the Scheme more competitive in the international market through a reduction of cost. Although during this period, the exports of four of these five commodity groups have gone up in absolute terms, their share in the total exports of the country has registered a very moderate increase of 5.06%, which raises doubts about any significant impact of C.C.S. on their exports.

Table IV.2 shows C.C.S. as a percentage of the f.o.b. value of exports for the major commodity groups over the period 1976-77 to 1987-88. It is observed that except in the case of Instant Tea, Jute Products, Fish and Fish-Products/Marine Products, Finished Leather and Leather Manufactures and Cotton Handlooms/Cotton Textiles, C.C.S. as a percentage of the f.o.b. value of exports is on the decline. For example, in the case of Engineering Goods, it came down from 15.3% to 10.59%, in the case of Chemicals and Allied Products from 12.7% to 8.95%, in the case of Sports Goods, from 14.9% to 11.67%, over the period from 1976-77 to 1987-88. This shows an increasingly lesser dependence of the items on cash compensatory support. In

TABLE IV.2: C.C.S. AS A PERCENTAGE OF THE F.O.B. VALUE OF EXPORTS (PHYSICAL) FOR MAJOR COMMODITY GROUPS

	Commodity Groups	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
1.	Engineering Products	15.3	14.4	15.3	16.1	14.2	15.1	14.1	14.83	12.66	13.36	13.68	10.59
2.	Chemicals and Allied Products	12.7	12.8	13.1	11.4	10.2	10.1	10.0	9.77	8.99	8.43	10.36	8.95
3.	Plastic Goods	10.1	9.5	10.0	9.3	9.5	10.1	11.5	9.57	7.12	7.38	6.84	5.02
4.	Sports Goods	14.9	14.1	14.5	14.6	14.8	15.2	14.6	12.61	11.70	10.64	14.99	11.67
5.	Processed Food Fresh Fruits, Vegetables	12.8	11.9	10.9	10.0	7.0	8.4	8.3	9.22	9.97	10.33 (exclusive of fresh fruits & vegetables)	10.3	9.58
6.	Instant Tea	9.9	10.4	9.6	11.3	13.4	12.3	12.7	13.0	12.98	12.94	12.04	15.59
7.	Woollen Carpets Rugs & Druggets	15.1	17.5	16.9	17.3	16.9	15.9	14.6	13.95	14.55	13.78	13.67	12.33 (inclusive of Handicrafts)
8.	Jute Products	9.2	9.9	10.0	7.4	7.4	7.5	7.2	4.74	8.14	9.69	12.27	11.13
9.	Fish & Fish Products/Marine Products	4.9	5.6	5.4	5.0	6.5	6.0	6.6	5.08	8.76	10.7	9.65	11.7
10.	Finished Leather and Leather Manufactures	6.1	2.4	12.9	11.2	11.0	12.3	11.9	11.34	10.80	10.98	10.75	13.3
11.	Handicrafts	12.1	13.1	14.7	13.1	6.9	9.9	9.4	9.12	11.01	10.43	8.93	(combined with woollen carpets in 1987-88)
12.	Cotton Handlooms/ Cotton Textiles	-	-	-	-	8.3	9.1	9.6	8.26	11.06	26.64	10.12	

Source: For the period 1983-84 to 1987-88 - Ministry of Commerce
For the period 1976-77 to 1982-83 - G.O.I., Ministry of Commerce Report of the Committee on Trade Policies, 1984, p-113.

the absence of further statistics it is difficult to draw any definite conclusions from this. However it is possible that such items are receiving increasingly greater benefits from other schemes such as Advance Licensing, I.P.R.S. Pass-Book System etc. as a result of which there is a marginal fall in the compensatory support being received by them. In case of Instant Tea, Jute Products and other items mentioned above, the C.C.S. as a percentage of the f.o.b. value of exports of each of these items is on the increase. The total C.C.S. disbursed as a percentage of the total f.o.b. value of exports of all commodities covered under the Scheme, works out to 11.3% in 1986-87, 11.46% in 1985-86, and 10.51% in 1984-85.

Table IV.3. shows the percentage distribution of C.C.S. between major commodity - groups of exports during the period 1974-75 to 1986-87. In 1986-87, Engineering Products had the highest share in C.C.S., followed by Finished Leather and Leather Manufactures, Cotton-Textiles, Chemicals and Allied Products and Woollen Carpets, Rugs and Druggets. It is observed that the shares of Engineering Goods, Chemicals and Allied Products, Plastic Products and Sports Goods have gradually come down over the years, while those of Processed Foods, Instant Tea, Woollen Carpets, Rugs and Druggets, Jute Products, Leather Manufactures, Handicrafts, Fish and Fish Products and the Textiles have gone up. During

TABLE IV.3: PERCENTAGE DISTRIBUTION OF C.C.S. BETWEEN MAJOR COMMODITY-GROUPS OF EXPORTS

Sl. No.	COMMODITY GROUPS	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
1.	Engineering Goods	65.5	65.3	50.9	46.3	45.0	42.6	41.9	47.0	45.6	42.8	36.22	34.45	35.65
2.	Chemicals & Allied products	23.1	19.7	12.2	12.0	10.1	8.8	9.7	9.4	8.7	8.0	7.11	6.69	7.97
3.	Plastic Products	2.0	2.0	1.3	1.2	1.0	0.9	1.0	1.1	1.4	0.8	0.66	1.29	0.27
4.	Sports Goods	3.2	2.0	1.2	1.0	1.1	1.1	1.2	1.0	0.9	0.7	0.74	0.63	1.04
5.	Processed Foods, Fresh Flowers, Fruits and Vegetables	0.3	1.0	6.6	5.0	4.7	4.2	4.4	5.0	5.5	6.1	6.7	3.1	7.35
6.	Instant tea packets, tea and tea bags	..	Neg.	1.0	1.2	3.0	2.3	2.3	1.7	0.9	0.2	1.64	2.25	1.2
7.	Instant Coffee extracts and essence	..	..	0.2	0.3	0.1	0.1	0.3	0.3	0.5	1.1	0.28	..	0.07
8.	Woollen carpets, rugs and druggets	3.5	4.1	6.3	7.9	8.5	10.0	12.4	10.3	8.4	8.8	8.38	8.2	7.31
9.	Jute Products	..	2.2	5.1	7.7	6.0	3.9	1.4	1.2	3.1	2.6	4.04	4.32	3.56
10.	Fish and fish products	..	0.1	0.3	0.3	0.3	0.4	0.6	0.3	0.7	0.4	0.4	0.83	1.4
11.	Finished leather, leather manufactures, etc.	2.0	3.4	9.8	10.4	11.5	15.2	11.8	11.3	11.9	11.7	13.57	13.56	13.09

Sl. No.	COMMODITY GROUPS	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
12.	Handicrafts	Neg.	0.2	2.8	3.3	4.4	4.4	4.8	3.9	3.0	2.9	3.66	3.1	2.78
13.	Natural silk made-ups/gar-ments/synthetic, fabrics, rayon etc.	0.3	0.1	2.3	3.0	4.2	6.0	5.6	5.3	5.7	4.5	15.38	5.72	6.9
14.	Cotton Textiles including handloom etc.	..	..	..	..	..	..	2.5	2.2	3.6	9.1	0.16	10.24	9.82
15.	Woollen/Blended knitwear	..	..	Neg.	..	Neg.	..	Neg.	..	..	0.3	Neg.	0.12	
16.	Misc.											1.06	5.43	1.52
	TOTAL ABOVE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Ministry of Commerce.

the period 1974-75-1986-87, C.C.S. has become more broad-based, covering many new items and this has resulted in a declining share of those items (mainly the "new manufactures") on which the scheme had earlier concentrated.

IV.2 The Duty Drawback Scheme

The Duty Drawback Scheme, first introduced in 1954, has been in operation for more than three decades. The scope of the scheme has been considerably enlarged over the years and today it encompasses 59 groups of commodities which have been included in the Schedule appended to the Customs and Central Excise Duties Drawback Rules 1971. (A list of these commodities may be seen at Annexure I).

Under the Duty Drawback Scheme, the exporters of specified goods are allowed reimbursement of Customs and Central Excise Duties paid on raw-materials, components and packing materials, used in the manufacture and packing of export products. The Scheme is currently being administered by the Directorate of Drawback under the Department of Revenue of the Ministry of Finance. The Directorate determines the All-Industry rates of drawback normally once a year following the budgetary changes in the duties of customs/central excise. Where All Industry rates of drawback have not been notified in respect of any of the export products included in the Drawback Schedule, or the rate of drawback determined is less than three-fourths of the duties paid on

the inputs of the export products, brand rates of drawback are fixed by the Directorate on the basis of the information furnished by the concerned exporter.

The "scope of drawback, the methodology to be followed for determining what is generally known as the All Industry rate of drawback, the provisions for brand rate fixation for individual exporter where no All Industry rate is available, the situation where special brand rates can be claimed if an exporter is not satisfied with the available All Industry rate of drawback and the broad procedural requirements for claiming drawback"[4] have been laid down in the Customs and Central Excise Duties Drawback Rules 1971, as referred to above, framed under the combined authority of section 75 of Customs Act and section 37 of the Central Excises and Salt Act.[5] While determining the amount or rate of drawback, the Drawback Rules require that the following points should be considered:

(i) The average quantity or value of each class or description of the materials from which a particular class of goods is ordinarily produced or manufactured in India;

(ii) The average quantity or value of the imported materials or excisable materials used in the production or manufacture in India of a particular class of goods;

(iii) The average amount of duties paid on imported materials or excisable materials used in the

manufacture of semis, components and intermediate products which are used in the manufacture of export goods;

(iv) The average amount of duty paid on materials wasted in the process of manufacture and catalytic agents;

(v) The average amount of duties paid on imported materials or excisable materials used for containing or packing the export goods.

Drawback is not allowed if the export product have inputs on which customs or central excise duty, as the case may be, had not been paid or the rate of drawback would come to less than 2 percent of the f.o.b. value of the finished product to be exported.

The last revision to the All Industry Drawback rates came into force with effect from 1st June, 1988. It was announced in the Press Note released by the government that while re-fixing the rates, "special attention has been paid to thrust industries which have considerable export or export potential and whose inputs suffer duties to a significant extent." In the new schedule, significant improvements in rates were allowed for a large number of export items especially those from the engineering sector. In case of many products from food-processing, engineering, electronics, paints and pigments, woollen and certain other industries, an increase of more than 10% over the earlier rates was allowed keeping in view the increased incidence of duties

on various inputs especially the imported inputs. To give a thrust to the export of electronics items, All Industry rates of drawback were fixed for the first time on certain items like metal film resistors, printed circuit boards, plastic film capacitors of different categories and black and white T.V. sets, amongst others. In addition to electronics, All-Industry rates were also fixed for the first time on certain other new products mainly from the engineering and textile groups.

In 1986, Government appointed a Committee to examine in detail the working of the Duty Drawback Scheme, to review the procedure for fixation of the duty drawback rates and disbursement of drawback claims, to look into the ways of implementation of the recommendations concerning Duty Drawback made by the Abid Hussain Committee on Trade Policies (1984), and above all to suggest measures for rationalization and simplification of the scheme. The committee in its report observed that if the duty drawback scheme was to achieve its objective of facilitating exports, a selective approach, involving identification of industries having substantial exports or export potential and whose products suffer considerable incidence of duties on inputs should be adopted. The Committee observed that readymade garments and leather and leather manufactures (including footwear) needed to be identified for such special attention

and suggested that entries in the drawback schedule for such industries should be drastically simplified and rationalized on priority basis to ensure that Drawback rates are available without any possible classification dispute and any need for detailed chemical or physical tests of the products. The other important recommendations made by the Committee were a general restructuring of Drawback Schedule, the use of electronic data process devices for fixation and review of All Industry rates of drawback and a more liberal approach at the time of fixation of such Drawback rates so long as the manual system of data processing continued.[6]

To ensure quick disbursement of Drawback the Committee suggested one window disbursement of Drawback as well as C.C.S. and desired that the work of rate fixation of drawback should be transferred from Ministry of Finance to the Ministry of Commerce. This decision though not implemented till now has been accepted in principle by Government. On the basis of the recommendations made by the Committee, the procedure for payment of drawback has been simplified resulting in prompt payment of drawback by the Custom Houses. Fixation of All Industry rates of drawback has also been rationalized. Once the programme of computerization in the Customs and Central Excise Department is complete the vast ambit of data that would become available would enable the

fixation and review of the All Industry rates on a much more scientific and realistic basis (as the average would be much nearer to the duty suffered by the export product on its input in general) in a much shorter time.

The amount of duty drawback disbursed annually during the period 1973-74 to 1986-87 may be seen from Table IV.1. It is observed that the annual growth rate of drawback has, by and large, marginally exceeded the annual growth rate of exports in this fifteen year period, except in the years 1979-80, 1980-81, 1982-83, 1983-84 and 1984-85. On the other hand, the growth of drawback has generally been lower than the growth of C.C.S. (except in 1974-75 when it was substantially higher and again 1979-80, 1981-82, 1982-83 and 1984-85 when it was marginally higher). In absolute terms the difference between the total quantum of drawback disbursed and the total amount of C.C.S. paid was only marginal upto 1975-76 but thereafter the growth of drawback slowed down compared to the growth of C.C.S. During the period 1973-74 to 1987-84, while the annual drawback disbursements increased from Rs.42.3 crores to Rs.294.75 crores, C.C.S. went up from Rs.52.4 crores to 739.20 crores. C.C.S. therefore attained an increase of fourteen times over a period of 15 years as against a seven times increase in case of Duty Drawback. This slowing down in the growth of drawback, as indicated in column (5) of the aforesaid Table, after 1976-77 and

and especially after 1979-80 appears to be due to the emergence of alternative schemes such as DEEC, 100% E.O.U. and (expansion of industries in) EPZ/FTZ under which imported inputs were not required to pay any customs duty at the point of import (no excise duty also if the manufacture of the export product was in a 100% E.O.U. or an EPZ/FTZ) and therefore there was no refund of duties involved at a subsequent stage. Because of the in-built advantages of some of the schemes, the exporters preferred to have duty free import of inputs to claiming refund of duties at a subsequent stage which was more time consuming and necessitated blockage of funds. Till 1987, separate statistics showing the break-up of drawback disbursement among different product groups was not being maintained. However it appears from the Report of the Drawback Review Committee (1986) that out of 575 products/product groups for which All Industry rates had been notified, only about 75 products/product groups which were having substantial exports, claimed the major share of the duty drawback. These industries included Textiles, Leather and Leather manufactures, Footwear, Chemicals, (including dye-stuffs and paints), Drugs and Pharmaceuticals, Engineering goods, Metal Manufactures, Artwares/Handicrafts, Plastic Products, Railway Wagons and Motor Vehicles and parts thereof. Table IV.4 showing Drawback Disbursement amongst the important commodity groups (covering such product groups only which

TABLE IV.4: DRAWBACK DISBURSEMENT AMONGST IMPORTANT COMMODITY GROUPS (In respect of which the disbursement exceeded Rs.10 lakhs) 1987

	Commodity Groups	FOB (in crores)	DBK (in Crores)	% of DBK on FOB	Allocation	
					Cus.	C.Ex.
	(1)	(2)	(3)	(4)	(5)	(6)
I.	Textile Sector	2420.00	182.13	7.5	3.8	3.7
II.	Leather Sector	909.54	62.88	6.9	3.6	3.3
III.	Metal Manufactures	175.78	37.55	21.4	18.9	2.5
IV.	Chemicals & Allied Industries	147.43	14.80	10.0	7.9	2.1
V.	Transport	80.43	11.80	14.7	8.3	6.4
VI.	Engineering Goods	57.27	5.86	10.2	8.8	1.4
VII.	Sports Goods	9.17	0.58	6.3	–	6.3
VIII.	Other Miscellaneous	23.35	2.82	7.8	7.0	0.8

(Source: Ministry of Commerce, Department of Revenue, Drawback Directorate).

received drawback of duty exceeding Rs.10 lakhs) in 1987 suggests that the aforesaid industries still remain the major recipients of drawback.

Textiles had the largest share in the drawback disbursed in 1987 (Rs.182.13) followed by Leather sector (Rs.62.88 crores) and Metal Manufactures (Rs.37.55 crores). Transport and Engineering combined had a share of Rs.17.66 crores. Drawback as a percentage of F.O.B. value of exports was the highest in case of Metal Manufactures (21.4%) followed by Transport (14.7%) and Engineering goods (10.2%). From column (5) and (6) it may be seen that the average drawback rates on these products vary widely depending on the incidence of customs/excise duties on the inputs going into the manufacture of these products.

IV.3 100% Export Oriented Units

The scheme of 100% Export Oriented Units came into operation in December 1980 with the objective of generating additional production capacity for exports. The scheme was primarily designed for the promotion and growth of manufacture and export of value added products. The 100% E.O.U.s have the facility of using imported or indigenous capacital goods and raw-materials without payment of duty subject to the export of finished products for a period of ten years (five years in case of products having a high degree of technological change) and the minimum value addition

condition which is now fixed at 20% by the Special Board of Approvals. These units are required to carry on their manufacturing activities in customs bond. In order to make them cost efficient, facilitate their free access to foreign technology and encourage them to venture into the foreign market on a large-scale, a wide range of incentives have been introduced for these units. The Scheme provides for import of capital goods, components, raw-materials, spares, consumables and even material handling equipments and office equipments required by the concerned units without payment of customs duty. Similar exemptions from central excise duty exists in case of capital goods, components raw-materials, consumables and spares procured by them from indigenous sources. The finished products also enjoy total exemption from central excise duties concessions in the form of exemptions from regulatory provisions have also been extended to these units. MRTP and FERA companies are allowed to set up units under the scheme, while the extent of foreign equity has been raised to 100%. The units can supply upto 25% of their output to the home market subject to the provisions of the Import Policy and on payment of customs duty. The other facilities extended to the 100% E.O.Us. include import of samples and prototypes (subject to quantitative limits) of drawings, blue prints, technical maps and charts, without payment of customs duty,

sale of 5% of the rejects to the domestic tariff area on payment of duties etc.

On review of the working of the 100% E.O.U.s certain additional facilities and concessions were subsequently extended to these units. A provision was made for the issue of green-cards to the approved units which had either taken sustantial steps for project implementation or had executed legal undertakings with the regional licensing authorities. The green cards entitle these units to priority treatment in matters such as grant of foreign-exchange by the R.B.I., supply of iron and steel, transportation facilities by air/rail, allocation of levy cement from central quota, sanction of telephone telex connections etc. The green card which is valid for a period of two years is ~~reviewed~~ renewed only if the units show adequate progress in the implementation of the project. The Industrial Development Bank of India issued directives for grant of a rebate of 1.5% in the applicable rate of interest on the loan to approved 100% Export Oriented Units for the first 5 years, depending upon their actuel performance vis-a-vis their obligation/projected level of exports in a particular year.

The 100% E.O.U.s including the Units located in the Export Processing Zones are now permitted with the prior permission of the government on a case by case basis, to sell upto 25% of their production in the Domestic Tariff Area (DTA)

other than sensitive products, subject to payment of appropriate customs duties. This is in addition to the facility under which the output of such units is allowed to be sold in the Domestic Tariff Area subject to such sales being consistent with the Import Policy in force and on payment of duties. The benefit of tax holiday as admissible to the units located in the Export Processing Zone, can now be availed of by the 100% E.O.U.s. The tax holiday is admissible for any continous block of 5 years within the first 8 years of the commencement of production. These units are now permitted to sub-contract a part of their production for job-work to units in the Domestic Tariff Area on a case by case basis so that linkages with indigenous industry and installed capacity can be established. Further, on merits, 100% E.O.U.s may be exempted, in suitable cases, from operation of Export Control Order applicable to the Domestic Tariff Area. The recovery of cost of the customs staff posted in the 100% E.O.U.s which was earlier fixed at 1 1/2 times of the average cost for the posts has been reduced to the actual cost towards salary and emoluments of such staff.

Supplies of capital goods, raw-materials, components and spares made by Indian firms to approved 100% Export Oriented units are now eligible for Supplementary Cash Assistance in lieu of duty drawback and rebate of terminal

excise duty on finished products subject to certain conditions. The rate of cash incentive is 75% of what is admissible on similar items when physically exported outside India.

A detailed Study of the 100% E.O.U.s was carried out by the Indian Institute of Foreign-Trade in 1986. The Study Team in their report observed that "full potential of the scheme remains so far untapped largely due to a number of operational problems. The scheme is said to have lost some of its lustre with the liberalisation of general import policy and availability of more incentives have been effected in the subsequent years of the introduction of the scheme, but they have not stimulated enough operational efficiencies of the E.O.U.s. "The Team arrived at the conclusion that the major factors, responsible for the modest export performance of the units were inadequacies and deficiencies in the policy provisions, customs clearance bottlenecks, multiplicity of bonds which involved high cost and delys, inadequate incentives and facilities to bring about the requisite degree of international competitiveness, high cost of finance and in many cases, indifferent attitude of the state governments towards the units. Poor export performance of those E.O.U.s which belonged to the small scale sector was attributed to "inadequate preparations" of these

Sales Tax, supply of indigenous raw-materials at international prices etc. The Committe further recommended that the minimum value-addition criterion should be decided in the light of substantial transformation expressed not in terms of the ratio of net foreign exchange earning to the total foreign-exchange outgo but in terms of the excess of the value of the final product over the value of different input, as a consequence of the manufacturing process. It also suggested that support of specialized institutions should be extended to 100% E.O.U.s. (many of which are small-scale and medium scale units and have to grapple with infant marketing problems) in the area of export marketing operation and for undertaking foreign-market researches by specialized institutions. The study team was of the view that the time-limit for import of capital goods by these units should be removed. For better co-ordination and more effective monitoring of the Scheme it also recommended the setting up of a 100% E.O.U. Scheme Authority.

Table IV.5 shows the year-wise break-up of exports effected by 100% E.O.U.s. It is seen that during the five year period commencing from 1981-82, the exports from these units picked up from 10.41 crores in 1981-82 to Rs.100.40 crores in 1985-86 registering a ten times increase. In the context of the overall exports of the country, however, this is a small fragment as may be seen from column (3) of the

Table. Even in 1985-87 when value of exports from the 100% E.O.U.s was the highest, the share of these units in the total exports of the country was meagre(1.20 per cent)

TABLE IV.5: STATEMENT SHOWING THE YEAR-WISE BREAK-UP OF EXPORTS EFFECTED BY 100% E.O.U.s

Year (1)	Exports (in Rs.Crores) (2)	Exports as a percentage of total exports of the country (3)
1981-82	10.41	0.13
1982-83	37.87	0.47
1983-84	59.14	0.60
1984-85	104.14	0.88
1985-86	131.27 (Prov.)	1.20
1986-87	100.40 (Prov.)	0.80

(Source: Ministry of Commerce)

which also came down in the subsequent year due to a decline in exports from these units and an overall increase in the exports from the country. Given the fact that the scheme was launched only in 1980 and that there is generally a gestation period involved before the production picks up, one should not expect any spectacular success in such a short period. But what is alarming is that out of 571 units which have been approved under the scheme upto June 87 only 85 went into production till that time which is an indication of the luke-warm response of the Indian manufacturers to the scheme./ Had the scheme been able to

/Reference: Table IV.6(a))

TABLE IV.6 (a): 100% EXPORT ORIENTED UNITS

INDUSTRY WISE SUMMARY REPORT ON 100% EOUS

SEQ :INDUSTRY CODE

SR.NO	INDUSTRY NAME	NO.OF APPROVED UNITS	NO.OF UNITS IN OPERATION	AVERAGE VALUE ADDITION APROVED (%)	REMARKS
1	ENGINEERING GOODS	89	19	30.88	
2	ELECTRONICS	61	12	43.34	
3	CHEMICALS PLASTICS AND ALLIED PRODUCTS	84	12	34.69	
4	LEATHER AND SPORTS GOODS.	4	1	34.09	
5	FOOD, AGRICULTURE AND FOREST PRODUCTS.	115	3	45.89	
6	TEXTILES	98	16	29.81	
7	GRAINTES.	60	5	44.15	
8	PAPER,PAPER PRODUCTS & STATIONERY.	1	0	40.00	
9	STEEL	8	1	30.55	
10	MINERALS & ORES	9	4	37.01	
11	JEWELLERY	19	2	26.52	
12	ARN	18	3	29.35	
13	MICA FABRICATED	5	1	24.31	
14	MISC	1	1	20.00	
	TOTALS	= 571	85		

TABLE IV.6(b): QUANTUM OF IMPORTS MADE BY AND CUSTOMS DUTY FOREGONE IN RESPECT OF 100% E.O.U.s

(In Rs. Crores)

Year (1)	Value of Imports (2)	Customs Duty Foregone (3)
1981-82	8.04	7.70
1982-83	81.84	20.41
1983-84	73.59	72.61
1984-85	62.83	49.04
1985-86	115.60	130.80
1986-87	318.55	403.57
1987-88	154.50	203.92

(Source: Ministry of Finance, Department of Revenue).

generate more interest, there would have been a much higher growth in the manufacture and exports from these units by now. An explanation to this may perhaps be found in the liberalization of policies and grant of further concessions to industries located in DTA which are entitled to many of the benefits available to 100% E.O.U.s for export production without the requirement of any firm commitment for exports. The study Team of I.I.F.T. also mentioned this aspect in their Report. The Study Team's remarks regarding a change in the criterion for value addition also deserves consideration.

It is seen from Table IV.6(b) that the value of imports made by the 100% E.O.U.s has gone up steeply over the period 1981-82 to 1987-88. Imports for such units are bound to be high at least in the initial years in view of the huge amounts involved in the import of capital goods. But such large-scale outgo of foreign-exchange needs to be compensated by a matching foreign exchange earning through generation of increasingly higher quantities of exports from these units. But in India, the performance of the 100% E.O.U.s over the past five years do not appear to justify such optimism. From Table IV.6(b), one may also get an idea of the very high costs of these units

to the national economy in terms of losses of customs revenue alone. Unless there is a major break-through in the performance of the 100% E.O.U.s in the next few years, there will be need for serious thoughts regarding continuation of the scheme.

IV.4 Advance Licensing Scheme

The Advance Licensing Scheme or Duty Exemption Entitlement Scheme was introduced in 1976 with the objective of providing the Registered Exporters with their requirements of basic inputs at international prices without payment of any customs duty so as to enable them to manufacture quality goods that will be competitive in the international market. It was an improvement upon the Duty Drawback Scheme in the sense that the exporter was not required to block his funds on customs duty and then wait for refunds which sometimes involved delay. Secondly, drawback rates were largely based on approximation, being average duty on the inputs and were in many cases marginally less than the actual duties paid Under the Advance Licensing Scheme, exemption from customs duty was full. The Duty Exemption Entitlement Scheme initially covered a limited number of items but its scope has been subsequently enlarged and now it is applicable to all items.

Three types of licences ## are issued under the scheme - (i) Advance licences for physical exports, (ii) Special

Imprest licences for deemed exports and (iii) Intermediate licences for supply of intermediate products to licence holders for ultimate exports. The licences under this scheme are issued against specific export orders. This rule is relaxed only in case of Registered Manufacturer Exporters who are engaged in actual production end have been exporting during the preceeding three licensing years. Items of raw-materials, components, consumsables required for manufacture of export products as well as packing materials and mandatory [illegible] are allowed to be imported under the scheme subject to actual use by the exporter or his supporting manufacturer. The finished products are required to be exported within a period of 12 months in case of engineering items, 6 months in case of Audio or Video Casettes and 9 months in case of other items. Items for Projects are allowed to be exported within the contracted duration of the export/supply. The period of export is however extendable in deserving cases.

The Advance licences stipulate the limits for imports of raw-materials consumables etc. both in terms of their value and physical quantity. In case of a large number of items, the input-output norms (i.e. the description and quantity of raw-material allowed to be imported against export of each unit of finished product) have been laid down in the Import and Export Policy itself (vide Appendix -C of the policy for 1988-91). In case of items not covered by this

list, such norms are decided by the (Headquarters) Advance Licensing Committee of the Ministry of Commerce. There is a value-addition critarion also which is discussed later in this section. The Licence as well as the Duty Exemption Entitlement Certificate issued to the exporter are required to be registered with the Customs authorities at a particular port and all imports/exports are normally to be made through this port. Before clearance of the first consignment of import, the licence holder is required to furnish bonds with bank guarantees/legal undertakings to the licensing and customs authorities. Request for issue of a second or subsequent licence in favour of the exporter is not entertained unless the export obligation in respect of the licence issued earlier has been fulfiled within the permitted or extended time or the case otherwise regularised.

The D.E.E.C. Schemes has, therefore, two aspects viz. exemption from customs duty and grant of an Advance, Special Imprest or Intermediate Licence under the provisions of Imports and Exports (Control) Order, 1955 by the Ministry of Commerce to enable the manufacturer procure his requirements of inputs from abroad. It therefore involves an outgo of foreign-exchange for import of inputs on the one hand and loss of revenue to the exchequer on the other. Table IV.7 shows the total number of Advance licences, the total c.i.f. value of imports allowed under such licences and the f.o.b.

TABLE IV.7: STATEMENT SHOWING DETAILS OF ADVANCE/SPECIAL IMPREST LICENCES ISSUED DURING (1980-81 to 1987-88) AND EXPORT OBLIGATION IMPOSED

VALUE IN CRORES OF RUPEES NO: ACTUAL

Year	ADVANCE LICENCES			SPECIAL IMPREST LICENCES		
	Number	CIF Value	FOB value of export obligation	Number	CIF Value	FOB Value of Export Obligation
1	2	3	4	5	6	7
1980-81	687	127.47	365.79			
1981-82	1247	310.18	845.87			
1982-83	1378	282.77	823.42			
1983-84	1713	252.19	872.70	NA	NA	NA
1984-85	2011	410.77	870.39	582	298.13	474.31
1985-86	2044	435.21	1091.95	1070	374.49	828.42
1986-87	2471	418.15	1070.98	448	470.43	1197.48
1987-88	4382	896.39	1893.08	281	328.83	884.10

	(No.of Licences) Col 2+5	(C.I.F Value) Col 3+6	(f.o.b. value) Col 4+7
1983-84	1713	252.19	872.70
1984-85	2593	708.9	1344.7
1985-86	3114	809.7	1920.37
1986-87	2919	898.58	2268.46
1987-88	4663	1225.22	2777.18

Note. The Scheme of Special Imprest Licence was introduced from Sept 1982 and separate data therefore was compiled from 1984-85.

(Source: Ministry of Commerce, Office of Chief Controller of Imports and Exports).

value of export obligations endorsed on such licences during the period 1980-81 to 1987-88. Since the Department of Revenue was not maintaining separate statistics showing the total value of imports under the Scheme till 1988, we may try to have a rough estimate of the imports from the value of such licences. The total c.i.f. value of imports allowed under such licences issued in a particular year has sharply gone up from Rs.127.47 crores in 1980-81 to Rs.1225.22 (inclusive of Special Imprest Licences) in 1987-88, indicating a ten times increase. This trend is noticed in case of total number of Advance Licences (including S.I. licences) issued over this period (from 687 in 1980-81 to 4663 in 1987-87). This is a reflection of the growing popularity of the scheme. In case of Special Imprest Licences however the growth is slower. In the absence of exacts figures of imports, it has not been possible to work out the imports made under the D.E.E.C. scheme as a percentage of the total imports of the country.

The total f.o.b. value of export obligations is found to be considerably higher than the total imports permitted under such licences on account of the value addition critarion, the minimum of which has been raised from 25% to 33% in the 1985-88 Policy. The increase in the value addition was on the logic that the outgo of foreign-exchange on account of imports should give a substantial return. For some of the products, viz. stainless steel, Polyester and Acrylic Fibre

and Polyester Filament Yarn, G.P. sheets, Silk Yarn, Ivory, Furniture components, casettes, Bags made of P.V.C. Leather Cloth, Wooden hand carved Panels and Handicrafts, - a much higher value addition has been prescribed.

Ministry of Finance, Department of Revenue have started maintaining separate statistics relating to c.i.f. value of imports and amount of customs duty foregone under the D.E.E.C. Scheme since 1988. The statistics regarding the total amount of customs duty foregone during the years 1984-85, 1985-86 and 1986-87 under certain schemes had been compiled in connection with a draft Audit Para and is reproduced in Table IV.8.

It is seen that the amount of duty foregone is a substantial amount and more than doubled from 415.43 (1984-85) to 843.38 (1986-87) in just two years. This figure needs to be taken into consideration for making a true evaluation of the real benefits of the foreign-exchange earnings by the units under the Advance Licensing Scheme. One must also look at the cases of misuse of the material imported under Advance Licences. When such cases are detected, penal action is generally taken against the Importer (e.g. by imposing penalty or debarring him from further licences) and customs duty chargeable is also demanded. The actual number of such cases could be much higher than what is detected in view of the practical difficulties in making such detections.

TABLE IV.8: PARTICULARS OF CUSTOMS DUTY FOREGONE UNDER ADVANCE LICENSING SCHEME

(In Rs. Crores)

Scheme	Duty 1984-85	Foregone 1985-86	1986-87
I. Other than Bombay Custom House			
(i) D.E.E.C./ Pass Book	147.60	192.02	283.52
(ii) Spl. Imprest Lic.	50.61	55.61	158.90
II. Bombay Custom House			
DEEC/Pass Book Spl.Imp.Lic./100% E.O.U.	217.22	256.37	400.96
Grand Total	415.43	504.00	843.38

(Source: Ministry of Finance, Department of Revenue. The actual figure of revenue foregone on account of Advance Licences (including Spl. Imp. Licences) alone will be marginally less because of two factors -

(i) duty foregone on account of imports under the Pass Book System has been included in this

(ii) The Bombay Custom House figures include the duty foregone on account of 100% E.O.U.s also).

The other danger is the procurement of Advance Licences against bogus export orders (no enquiries are normally made to check up the authenticity of the export order). This can be taken care of by insistance on opening of irrevocable L/Cs in all cases to ensure foreign exchange remittance. On the whole it can be stated that the scheme constitutes an effective measure for export promotion, though there is a need for better monitoring and greater vigilance to prevent its misuse.

IV.5 Free Trade/Export Processing Zones

The Free Trade/Export Processing Zones, the first one of which was established in India over two decades ago ~~holds~~ had a lot of promise for export promotion. The E.P.Z.s or the off-shore assembly areas as they are often called were initially used by large U.S. firms (generally the multinational corporations) to take advantage of the low wage rates prevailing in developing countries and thereby reduce their production costs. For developing countries EPZs represented a least cost option for expanding exports of semi-manufactures and manufactures. The developing economy merely provided developed space and access to its abundant resource (i.e. cheap labour) while the investment, managerial skills, technology and marketing techniques were all provided by foreign investors.[7]

The Indian experience in the development of the EPZs has however been slightly different. As already discussed in Chapter II, the Government, realising the strong domestic pull for many of the goods which are in demand in foreign-market, used this medium of export promotion by insulating specified products or areas from the suck-in-effects of the vast domestic market, so as to generate export surpluses and increase the country's foreign-exchange earnings. A very important rationale of establishing export processing zones was that export production could be initiated without adjusting or transforming the regime of protection for firms producing for the domestic market. The implementation of a dual system of incentives allowed a continuation of protectionist industrialization policies and given the many economic and political difficulties involved in liberalization, the strategy of creating EPZs to stimulate exports emerged as an attractive option.[8] In the E.P. Zones set up in India, foreign participation has, however, been limited from the very beginning and they have been predominated by domestic units. According to the study made by Rajiv Kumar, out of 115 units established in KAFZ, only 11 had foreign equity while in SEEPZ out of 59 operational units, only 24 had some foreign equity participation which again was largely accounted for by non-resident Indians.[9] As correctly observed in the aforesaid Study, Indian EPZs have been unsuccessful

in attracting foreign investment especially from major corporation.[10]

The Government in an effort to create a free-trade environment has extended a wide range of concessions to the industrial units set up in the Free Trade/Export Processing Zones. These are a total waiver of licensing for import of capital goods and the inputs, full exemption from customs duty on imports of capital goods, equipments, raw-materials, components, consumables spares as well as tooling and packaging materials, exemption from central excise duties and other levies on products manufactured within the Zone, special relaxation with regard to local laws and levies including Octroi, Sales Tax, Property Tax etc., facility to sell 25% of the production in DTA, a tax holiday for five years, no restriction on foreign equity and foreign-participation, facility for repatriation of foreign capital and remittance of dividends, public utility status for the zone etc. Capital goods, raw-materials, components, consumables etc. supplied from the DTA to the FT/EPZ are also treated as "deemed exports" and are eligible for most of the concessions available for physical exports. While creating exclusive Export Promotion Zones with all its incentives and concessions the expectation of the planners was that they would bring in advanced technology, foreign capital and expertise and by using the abundantly available indigenous

labour, they would be able to generate greater export of manufactured and semi-manufactured products. There is generally a minimum value addition criterion which constitutes in important critarion for considering the applications.

As earlier stated in Chapter II, Kandla Free Trade Zone (1965) was the first Free Trade/Export Processing Zone to be set up with the basic objective of increasing exports and earning foreign-exchange for the country, in addition to developing Kandla as a major port as an alternative to Karachi and developing the backward area of Kutch. The Zone however could not make any contribution to the country's exports for very many years. The industries established in the Zone include Engineering, Chemical and Allied Products, Ready-made garments, Hosiery and Knitwear, Plastic Sports goods, Medical Appliances etc. Soviet Union is the largest buyer from the zone.

The Santacruz Electronics Processing Zone (SEEPZ) was set up in September 1974 exclusively for augmenting the exports of electronics goods from the country. A Gem and Jewellery complex has been developed in this zone very recently, SEEPZ accounts for a big chunk of the electronics exports from the country which largely consists of computers, computer sub-assemblies, peripherals as also electronic components consumer electronics and computer software.

The Far East has the biggest share in the exports from this zone followed by U.S.A. and the East European Countries (including U.S.S.R.)

In pursuance of the recommendations of the Tandon Committee for creation of some more EPZs in the country, the government decided in the early eighties to set up four new multi-product zones at Cochin, Madras, Falta and Noida. Out of these four zones, Falta and ~~Noida~~ Madras started production and exports from 1985-86 while the other two zones viz. Cochin and Noida from 1986-87. The development of infrastructural facilities in these zones have been in various stages of completion.

Table IV.9 shows the total value of imports to and exports from the Free Trade/Export Processing Zones and such imports/exports as percentage of total imports/exports of the country. It may be seen from column (2) of the Table that during the period 1984-85, to 1987-88, exports from FT/EPZs have more or less stagnated, marginally varying between Rs.333 and 360 crores, despite setting up of four more zones during this period. Although exports from the new zones picked up considerably from Rs.2.85 crores in 1985-86 to 38.3 crores in 1987-88 as may be seen from Table IV.10, it was largely offset by the moderate performance of the Santacruz EPZ (showing a marginal increase from Rs.95.83 crores

TABLE IV.9: TOTAL VALUE OF IMPORTS TO AND EXPORTS FROM FREE-TRADE/ EXPORT PROCESSING ZONES & PERCENTAGE THEREOF IN RELATION TO TOTAL IMPORTS/EXPORTS OF THE COUNTRY

Year (1)	India's Total Exports (2)	Exports from FT/EPZ (3)	Exports from FT/EPZ as Percentage of total exports (4)	Imports to FT/EPZ (5)	India's Total Imports (6)	Imports to EP/FTZ as percentage of Total Imports (7)
1984-85	11743.68	333.01	2.84	212.39	17134.20	1.24
1985-86	10894.59	324.19	2.98	396.94	19657.69	2.02
1986-87	12566.62	360.56	2.87	1440.46	20083.53	7.17
1987-88	15719.36	333.49	2.12	2558.83	22343.02	11.45

TABLE IV.10: NO. OF APPROVED UNITS, NO. OF WORKING UNITS, EXPORTS FROM THE DIFFERENT FT/EPZ DURING 1982-83 TO 1987-88

Year	No. of approved units	No. of working units	Exports (Rs.Crores)
KFTZ			
1982-83	179	89	142.44
1983-84	193	97	107.80
1984-85	184	107	237.18
1985-86	179	114	236.85
1986-87	191	122	236.26
1987-88	207	129	185.05
SEEPZ			
1982-83	71	45	54.38
1983-84	84	51	88.62
1984-85	87	54	95.83
1985-86	90	57	84.49
1986-87	105	71	102.36
1987-88	99	74	110.14

Zone	No. of approved units (as on 30.12.88)	No. of working units (as on 30.12.88)	Exports (Rs.crores)			
			85-86	86-87	87-88	88-89 (upto 30.12.88)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Falta EPZ	57	4	2.30	3.89	1.86	4.09
Madras EPZ	113	28	0.55	10.04	16.45	13.07
Cochin EPZ	58	6	-	0.94	3.94	4.19
Noida EPZ	91	24	-	7.07	16.05	16.23

in 1984-85 to Rs.110.14 crores in 1987-88) and declining exports from Kandla, (from Rs.237.18 crores in 1984-85 to Rs.185.05 crores in 1987-88). Amongst the new zones, Madras and Noida have done well - nearly doubling their exports in just one year while Cochin and Falta, ~~Table IV.11~~ could not make much progress. Falta in fact registered an actual decline in exports. As a result of this overall stagnation in the exports from these zones, their share in the total exports of the country has declined from 2.84% to 2.12% over this period. On the other hand, imports to these zones have gone up steeply from Rs.212.39 crores in 1984-85 to Rs.2558.83 crores in 1987-88, registering an increase of over ten times. As a percentage of the total imports of the country they were 1.24% in 1984-85 and 11.45% in 1987-88, as may be seen from column (7) of the Table. This is an alarming trend indeed, when seen in the context of the overall export performance of these zones, The sharp increase in the imports to these zones since 1985-86 is largely due to the large-scale import of capital goods etc. needed for setting up new industrial units especially in the new zones. But the question that comes to one's mind is, will these new zones live up to the promise held by them? Unless their exports pick up quickly it will be difficult for the country to foot the rising import bills for long, given the critical balance of payments situation prevailing. It appears that administrative inefficiencies,

procedural bottlenecks and lack of sound infrastructural facilities have hindred proper growth of the EPZs is India. To improve the functioning of the zones the, Tandon Committee and the Committee on Trade Policies under the Chairmanship of Abid Hussain had made a series of recommendations. Both the committees identified the lack of smooth administrative procedures as one of the causes of the slow progress of these zones and recommended the creation of a single, fully empowered, commercially oriented administrative body for handling the total functioning of all EPZs in the country. The government has already accepted the suggestion and initiated necessary action to implement this.

The other point that emerges from the available statistics (ref: Table IV.10) is the "high mortality rate" among approved applications. The government cannot shy away from the fact that these zones have not been able to draw the Indian and foreign-enterpreneurs in a big way. In the case of the new zones only a small percentage of the units approved have actually gone into production. This is a sorry state of affairs! In the case of KFTZ and SEEPZ also, a considerable gap exists between the number of units approved and the number of units working. The study carried out by Rajiv Kumar recommended the following measures to tackle this problem.

(i) to establish and announce as widely as possible the minimum conditions for selection

(ii) to prepare a statement outlining the incentives available under different export promotion schemes and their comparison to those available in EPZ and

(iii) charge a substantial fee in the form of advance rent from all approved applicants at the time when the Letter of Approval is given.

These measures if adopted will probably help the zone authorities to motivate the prospective investors to set up their units within a reasonable period. However, it is felt that so long as the basic problem of lack of proper infrastructural facilities coupled with uncertain prospects for Indian goods in the international market remains, the Indian enterpreneurs will be discouraged from setting up their units in these zones. One of the reasons for the poor performance of the FT/EPZs appears to be the liberalization of policies and grant of further concessions to industries located in DTA which can avail of the benefits without the requirement of any firm commitment for exports. The other aspect which needs consideration is the direction of trade from these zones. U.S.S.R. and East European countries constitute the major buyer for India's FT/EPZs, while the imports are mostly from the hard-currency areas. Despite all the liberalizations and technology transfers Indian products have not reached that stage in terms of their quality

and price where they can successfully compete in the international market without the shelter of bi-lateral trade agreements. This is the tragedy of India's industrialization.

CHAPTER V

SUMMARY OF FINDINGS & RECOMMENDATIONS

From the discussions in the foregoing chapters, one point that emerges clearly is that export promotion has been a major instrument in the policy changes witnessed in the past decade or so. The moderate performance of the export sector and the failure of the Indian manufactured goods to successfully compete in the international market coupled with the compulsion to earn more foreign exchange necessitated a liberal import policy and greater industrial deregulation as well as introduction and expansion of certain promotional schemes. All this was in an effort to improve the quality and competitiveness of Indian products and improve the external orientation of the Indian economy. A close look at the evolution of export policies and the actual export performance seem to suggest that there is a positive relationship between the export promotion measures and the export performance although it is difficult to quantify this. From the analysis of data in Chapter IV it becomes clear that the benefits extended to the export sector have not been matched by a proportionate rise in exports. Five major groups of commodities viz. Engineering, Chemical and Allied products, Leather products, Handicrafts and Cotton Textiles which together received of 73.83% of the total C.C.S. disbursed in 1986-87 contributed to 35.86% of the

total exports in that year and had registered a very marginal increase of 5.06% between 1981-82 and 1986-87. Again during the period 1973-74 to 1986-87 while the total quantum of C.C.S. disbursed increased almost fourteen times, exports increased only five times. During the greater part of this period, the annual growth rate of duty drawback has also marginally exceeded the annual growth rate of exports. This is despite the fact that with the emergence of alternative schemes such as D.E.E.C. Pass Book System 100% E.O.U.s and (Expansion of industries in) EPZ/FTZs under which imported inputs are not required to pay any import duty, there has been a relative slowing down in the growth of drawback in the recent years. Amongst the other schemes the performance of the EPZ/FTZs and the 100% E.O.U.s has been especially disappointing. As shown in Chapter IV, these two schemes have been characterized by a huge outgo of foreign-exchange on account of the unrestricted imports of capital goods, raw-materials, components, consumables etc. On the other hand exports from the units under these two schemes, both in absolute terms as well as in the context of total exports of the country have been very small indeed. Again the scheme of EPZs have not been successful in attracting foreign investments in a big way, while the E.O.U.s could not contribute much to the growth of manufactured exports. It is amazing that despite such large-scale concessions and benefits, India's trade gap

has been increasing as the exports have failed to catch up with the imports. When seen in the international context, India's share in the world exports as also in the exports from the developing countries has registered a steady decline over the years. The country has lost market shares in international trade in most of the major product groups to its competitors - notably to certain East and South-East Asian countries and a few countries of Latin America. Again in real terms, the growth in India's exports has been very moderate, as shown in Chapter III. The falling value of the Indian rupee vis-a-vis the major currencies of the world as well as continuing inflation have tended to inflate our export figures. The promotional measures, most of which had a bias in favour of the non-traditional manufacturing sector, also failed to bring about the desired qualitative change in the country's export basket. This becomes obvious from the fact that even today exports from India largely comprise low technology items and primary products and the exports of non-traditional manufactured items such as Engineering goods, Iron and steel etc. have been either declining or stagnating over the past few years.

The limited success of the promotional measures can be largely explained by a number of factors. First, the huge domestic market which still enjoys a high degree of protection acts as a great disincentive for exports. The

manufacturers who can earn easy profits on domestic sales are reluctant to face the tough competition in the international market. The protective policies pursued for several decades have in fact encouraged inefficiency in the Indian industries and lack of cost consciousness amongst the enterpreneurs. A strict import control regime also prevented any continuous transfer of technology which had the impact of creating an increasing technological gap between India and the developed countries. All this have adversely affected the quality and competitiveness of Indian products. It has been shown in the two studies made by Nagesh Kumar and K.S. Chalapati Rao that even the Trans-National Corporations who are in a more advantageous position to sell their products in the overseas markets because of their access to international information and marketing networks, technology, brand good-will etc. have shown a more keen interest in getting a foothold in India's domestic market, rather than utilizing these advantages to promote manufactured exports from this country. For this reason their attitude towards Indian EPZs have been one of indifference. The decline in the export orientation of the large private corporate sector and a growing dependence of this sector on domestic markets, is alarming indeed! It is the lesser competition and high profitability of India's domestic market which can largely explain this phenomenon.

Secondly, marketing has been one of the weakest aspects of our export sector. Commodity Boards, Export Promotion Councils and T.D.A. have had limited success in penetrating foreign markets, and our marketing efforts have definitely lacked the initiative, drive and zeal which characterized the marketing strategies of countries like South Korea Singapore and Taiwan. There is a need for a result-oriented approach in our international marketing strategy and to achieve this, the existing institutions need to be integrated and completely revamped. The success of Japan and South Korea in international trade has to a great measure been due to the integrated trade information system developed by them which enables their individual exporters to have ready access to the latest information on overseas markets. Moreover, the Trade Attaches of these countries working with their foreign missions play a very active role in collection and dissemination of market information and developing the necessary contacts with the prospective buyers. In contrast, India has a poor trade information base. The proposal for setting up a National Centre for Trade and Information (N.C.T.I.) though accepted by the government in a somewhat modified form is yet to be implemented. The need for such an institution can hardly be over emphasized, given the vast information gap existing in India today. Ready access to trade information is going to benefit the medium and small-scale

exporters who account for a big chunk of India's exports. The role played by India's commercial representatives abroad has also been by and large rather disappointing. The government should consider inducting professionally qualified and experienced international marketing executives in place of bureaucrats for these assignments for a limited tenure. They are likely to achieve greater success in collection of market intelligence and wooing the prospective buyers.

Improving the "export image" of the country is yet another important task before us. Certain unscrupulous elements have already done considerable harm in spoiling India's good-will in the international market which needs to be restored. More frequent participation in international trade fairs, greater contacts and exchange of information between Indian exporters and foreign buyers may help dispel some of the doubts in their minds. Development of quality consciousness and an export culture amongst our enterpreneurs is also essential if we want permanent trade relations with our overseas buyers. In these respects India could well emulate the examples of the four countries of East and South-East Asia who have shown a remarkable professionalism in their dealings with the international community. If there is a conscious effort, there is no reason why Indian exporters cannot attain these qualities.

In the final analysis, it may be stated that despite their limited success, the promotional measures should be continued because without some of them especially the C.C.S., Drawback, Advance Licensing, the Pass Book System, Replenishment licences, and the scheme of Export and Trading Houses it would not be possible to keep the exports even at their present level. However there should be an end to the clamour for further concessions and benefits which should not be carried any further. On the other hand, there should be greater efforts for removal of some of the deficiencies and inadequacies in the our system as discussed above in order to bring about the qualitative changes in terms of professionalism and dynamism and development ~~it~~ of a proper export culture amongst our enterpreneurs. If we fail in our task, a difficult time is ahead of us on the balance of payments front.

FOOTNOTES

CHAPTER I

1. Source: Trade and Development Report 1984, p.54.

2. "Development Strategy: Is the success of outward Orientation at an End"?, T.N. Srinivasan in "Essays on Economic Progress & Welfare", edited by S. Guhan & Hami Shroff, p-226.

CHAPTER II

1. India, The Second-Five Year Plan, Govt. of India document, New Delhi 1956 pp.98-99.

2. India, Third Five-Year Plan, 1961, p.108.

3. Manmohan Singh "India's Export Trends" Oxford University, Press 1964, p.338.

4. India, Third Five Year Plan, Govt. of India, Planning Commission, 1961, pp.137-138.

5. Govt. of India, Ministry of Commerce & Industry, Report of the Export Promotion Committee (1957) p.136-142 as reported in Corporate Studies Group, Indian Institute of Public Administration, India's Export Policies and Performance: An Evaluation, K.S. Chalapati Rao.

6. Govt. of India, Ministry of Commerce and Industry, Report of the Import and Export Policy Commerce, 1962.

7. Indian Investment Centre, Industrial Licensing: A guide on Procedures 1969.

8. The export promotion measures of the sixties as enumerated in this chapter are largely based on Chapter 19 of "India: Planning for Industrialization" by J.N. Bhagwati and Padma Desai, Oxford University Press 1970, pp.400-467

9. Bhagwati & Srinivasan ~~op.cit.p.1~~ Development: India", p 107.

10. "India: Planning for Industrialization", op.cit. p.407.

11. These two schemes are largely based on the discussions in "Foreign Trade Regimes and Economic Development: India, Jagdish N. Bhagwati and T.N. Srinivasan, pp.64-68, 100-101.

12. The discussions on the institutions engaged in the development of exports/foreign trade are largely based on the Annual Reports of the Ministry of Commerce.

13. Govt. of India, Ministry of Commerce, Deptt. of Commerce, "Annual Report", 1987-88, p-33.

14. "Foreign Trade Management in India", by M.L. Varma, Vikas Publishing House Ltd. 1988, p.58-59.

15. The discussion on devaluation draws heavily from "Foreign Trade Regimes and Economic Development: India", J.N.Bhagwati & T.N. Srinivasan, Vol.VI, Chapter V and Chapter VI.

16. It was pointed out in the Fourth Five-Year Plan that the export duties were imposed to protect the unit values of exports in terms of foreign-exchange. See Govt. of India, Planning Commission, Fourth Five Year Plan 1969-74, p.96.

17. India, Planning Commission, op.cit. p.96.

18. Ibid. p.98.

19. International Bank for Reconstruction and Development and the International Development Association "India's Export Prospects" Vol.I (Prospects for Industrial Exports, May 1971 P.55) as reported in I.I.P.A., Corporate Studies Group "India's Export Policies and Performance: An Evaluation", Chalapati Rao, p.13.

20. Export Policy Resolution 1970 as reproduced in Govt. of India, Ministry of Commerce Annual Report 1973-74.

21. M.L. Verma, "Foreign Trade Management in India", pp.83-84.

22. V.R. Panchmukhi "Trade Policies of India - A Quantitative Analysis", pp.215-217.

23. India, Planning Commission, Fifth Five Year Plan 1974-79, pp.18.

24. Govt. of India, Ministry of Commerce, "Report of the Committee on Import Export Policies and Procedures (Chairman: Dr. P.C. Alexander) 1978, pp.72-77.

25. V.R. Panchmukhi, "Foreign Trade and Trade Policies" in P.R. Brahmananda and V.R. Panchmukhi, "The Development Process of the Indian Economy", Himalaya Publishing House, p.

26. Govt. of India, Ministry of Commerce, Deptt. of Commerce, "Annual Report", 1987-88.

27. Govt. of India, Ministry of Commerce, Civil Supplies and Cooperation, Report 1977-78, p.73.

28. G.O.I., Ministry of Finance, Report of the Drawback Review Committee, January, 1986, p.2.

29. India, Planning Commission, Sixth Five Year Plan, 1980-85,p.72.

30. A higher drain of foreign-exchange on account of the liberalised imports, limited availability of external assistance and a substantial increase in debt-servicing - all contributed to India's increasingly adverse balance of payments position at the beginning of this decade.

31. According to the arrangement, India had the right to draw SDR 900 million until 30th June 1982, another SDR 1800 in the next year upto June 30, 1983 and the reminder upto the end of the three year arrangement. Repayment of each drawing was to start in the fourth year and will be completed in 10 years after the date of drawing. Drawings are to be made only to finance the balance of payments. The money is borrowed in several foreign currencies. Source : Indian Institute of Public Administration, Corporate Studies Group, working papers, "India's Trade Policies and Export Performances" by Piton Van Dijck p.35.

32. Source: I.I.P.A., Corporate Study Group, op.cit.

33. Govt. of India, Ministry of Commerce, Report of the Committee on Export Strategy: 1980, p-88.

34. Govt. of India, Ministry of Commerce, op.cit. p.88.

35. This portion draws heavily on Corporate Studies Group, Indian Institute of Public Administration, "India's Export Policies and Performance: An Evaluation" by K.S. Chalapati Rao, pp.16-18.

36. Govt. of India, Ministry of Commerce, op.cit..

37. Govt. of India, Ministry of Industry, Report of the Committee on Perspective Plan and Strategy for Export of Engineering and Capital Goods, 1984, as reported in Corporate Studies Group, I.I.P.A. "India's Export Policies and Performance: An Evaluation", K.S. Chalapati Rao.

38. The discussion on Exim Bank are based on Kalyan Banerji "The Export-Import Bank of India: A Source of Export Finance", and "EXIM BANK INDIA", a publication of the Export Import Bank of India, Bombay.

CHAPTER III

1. India, Planning Commission, Third Five-Year Plan, 1962, p.134. These figures are in current prices and in rupees unadjusted for exchange-rate changes. ~~The effects of these two factors have been dealt with later~~.

2. Discussion on the export performance of this period is largely based on India, Planning Commission, Fourth Five-Year Plan, 1969-74, pp.93-97.

3. Govt. of India, Ministry of Commerce, Annual Report, 1975-76, p(i).

4. Govt. of India, Ministry of Commerce, Annual Report, 1975-76, pp (ii) & (iii).

5. Ibid., p (i).

6. 1977-78 was the last year of the Fifth Plan and 1981-82 was the first year of the Sixth Plan. The [redacted] years in between had Rolling Plans.

7.&
8. Source: Govt. of India, Ministry of Commerce, Annual Reports, 1987-88 (p-13) & 1983-84 (p-4).

9. Source: GOI, Ministry of Commerce, Annual Reports, 1983-84 and 1987-88, p.4 and 13 respectively. The export and import figures for 1987-88 have been obtained from Ministry of Commerce.

10. Source: GOI, Economic Surveys 1986-87 (pp.96-97) and 1987-88 (p.88-89).

11. Source: V.R. Panchmukhi, "Foreign Trade and Trade Policies" in P.R. Brahmananda & V.R. Panchmukhi "The Development Process of the Indian Economy," Himalaya Publishing House.

12. Indian Institute of Public Administration, Corporate Studies Group, "Indias Export Policies and Performance: An Evaluation", K.S. Chalapati Rao, pp.33-35.

CHAPTER IV

1. This portion is entirely based on Govt. of India, Ministry of Commerce, Annual Report 1987-88, [redacted]

2. These calculations have been based on the data on total amounts of C.C.S. paid and f.o.b. value of exports for each of these commodity groups, as obtained from the office of the C.C.I.& E, New Delhi. These data marginally differ from the export figures for each of these commodity groups appearing in the concerned Annual Report of the Ministry of Commerce.

3. In 1986-87, instead of "Cotton Handlooms", the commodity group appeared under the description "Cotton Textiles".

4. Govt. of India, Ministry of Finance (Department of Revenue), Report of the Drawback Review Committee, January 1976, p-1.

5. Section 75 of the Customs Act deals with drawback of customs duty on imported materials used in the manufacture of goods which are exported, while section 37 of the Central Excises and Salt Act provides for drawback of central excise duty on excisable materials used in the manufacture of such exported goods.

6. The Committee observed in this connection "The approach in the matter of fixation of All Industry rates should not be to meticulously find out the exact duty content suffered by the inputs which in our view is neither necessary nor desirable. On the other hand the attempt should be to have a broad assessment of the average duties suffered on the inputs used for the export product - which should be tempered with a liberal approach."

7. Rajiv Kumar, "Indian Export Processing Zones: An Evaluation", I.C.R.I.E.R., 40 B Lodi Estate, New Delhi, 1985-86, pp.30-31.

8. I.I.P.A., Corporate Studies Group, India's Trade Policies and Export Performance by Pitri Van Dijck p-46.

9. This was the position in 1986 when the study was made.

10. Op.cit. p-52.

11. Rajiv Kumar, op.cit. p-37.

"THE SCHEDULE"

SEE RULE 3(1)

GOODS IN RESPECT OF WHICH DRAWBACK IS ALLOWABLE ON EXPORT

S.No.	Description of goods
1.	Fruit preserved and fruit preparations, provision, canned, bottled or otherwise and all sorts of foods, not elsewhere specified.
2.	Instant Coffee.
3.	Cocoa Paste, Butter, Powder, chocolate and other food preparation containing cocoa.
4.	Sugar confectionary and other sugar preparation.
5.	Biscuits.
6.	Copra Cake.
7.	Concentrate and base for non Alcoholic Beverage.
8.	Alcoholic Beverage.
9.	Tobacco manufactures
10.	Petroleum products.
11.	Organic Chemicals, inorganic chemicals, chemical products.
12.	Drugs and Pharmaceutical products.
13.	Synthetic organic Dyestuffs, Dye, intermediates and colour lakes.
14.	Pigments, colours, paints, enamels, varnishes, lacquers, synthetic polyesters, epoxy resins, printing inks and writing inks.
15.	Essential oils, Hydrogenated castor oil, perfume materials, aggarbatties, toilets, polishing and cleaning preparations.
16.	Explosives, Pyrotechnic products (Fire works), Safety Matches and Safety Fuses.
17.	Photographic and cinematographic goods.
18.	Insecticides, pesticides, fungicides, weedicides and formulations thereof.
19.	Synthetic resins (including adhesives) plastic raw-materials and articles made thereof.
20.	Synthetic rubber, reclaimed rubber and articles of rubber.
21.	Hides, skins, leather, articles of leather or artificial leather, other goods and travel goods.
22.	Veneers, Plywood improved or reconstituted wood, products made thereof.
23.	Cork manufactures including crown corks.
24.	Paper pulp, paper, paper boards, fibre boards, other boards of wood pulp or vegetable fibre, articles made thereof, printed matter, books, magazines.
25.	Synthetic and regenerated fibre and textile yarn, thread, twines, cords and ropes.
26.	Textile farbics and hosiery.
27.	Made up articles, garments, chiefly made from textile materials.
28.	Floor covering including carpets.
29.	Footwear and parts of footwear
30.	Umbrellas and umbrella fittings.
31.	Human hair and products thereof
32.	Products made of asbestos, cement or both.
33.	Ceramic products, refractories and potteries.

S.No.	Description of goods
34.	Glass and Glassware including glass mirror and vacuum flasks.
35.	Finished cultured pearls.
36.	Iron and steel except ingots and other primary forms (including blanks for tubes and pipes) of iron and steel.
37.	Non ferrous metals and metal alloys.
38.	Manufactures of metal, not otherwise specified.
39.	Tools for use in the hand or machine.
40.	Power generating machinery, parts thereof.
41.	Agricultural machinery and implements, parts thereof.
42.	Office machines, parts thereof.
43.	Metal working machinery parts thereof.
44.	Textile machinery, parts thereof.
45.	Machinery for other purposes and industries, equipments, appliances (other than electrical)
46.	Electrical power machinery, equipment for distributing electricity, switchgear,parts thereof.
47.	Telecommunication equipment and apparatus, parts theroef.
48.	Domestic electrical equipment, electrical apparatus for medical purposes, radiological apparatus, other electric machinery and apparatus, parts thereof.
49.	Railway/Locomotives, wagons, coaches, track fixtures and fittings, traffic signalling equipment all kinds, parts thereof.
50.	Vehicles (other than Railway), Aircrafts, Ships, Boats and Floating Structures all sorts, parts and accessories theroef.
51.	Sanitary, plumbing, heating, lighting fixtures and fittings and parts thereof.
52.	Furniture.
53	Optical, photographic, cinematographic, measuring, checking, precision, medical and surgical instruments, apparatus and equipment, parts thereof.
54.	Clock and watches and parts thereof.
55.	Musical instruments, sound recorders and reproducers, parts and accessories thereof.
56.	Toys, games and sports requisites, parts therof.
57.	Office and stationery supplies.
58.	Articles made wholly or partly of alabaster or gold or silver.
59.	Manufactured articles, namely, brushes, all sorts except carbon brushes, zip fastener, snap fastener, mechanical lighter, artificial hair wig and the like and ivory products.